




COMMITTEE TRANSMITTAL

May 23, 2016

To: Members of the Board of Directors
From: Laurena Weinert,  Clerk of the Board
Subject: Interstate 405 Improvement Project Initial Toll Policy and Preliminary Finance Plan

Finance and Administration Committee Meeting of May 11, 2016

Present: Directors Hennessey, Jones, Katapodis, Miller, Pulido, Spitzer, and Steel
Absent: Director Do

Committee Vote

Committee Chairman Spitzer took a roll call vote for the motion made by Director Pulido, seconded by Board Vice Chairman Hennessey, and following the roll call vote, declared passed 6-1.

Director Miller voted in opposition.

Committee Recommendations

- A. Approve the initial 405 Express Lanes Toll Policy.
- B. Approve the preliminary Interstate 405 Improvement Project Finance Plan.
- C. Allocate approximately \$10 million in internal funds to cover short-term, reimbursable project development costs.
- D. Reimburse the Orange County Unified Transportation Trust Fund for prior funding for project development.
- E. Authorize staff to process all necessary amendments to the Federal Transportation Improvement Program, and execute or amend all necessary agreements to facilitate the above actions.



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Staff Report



May 11, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Interstate 405 Improvement Project Initial Toll Policy and Preliminary Finance Plan

Overview

The Orange County Transportation Authority continues implementation of the Interstate 405 Improvement Project between State Route 73 and Interstate 605. For the express lanes portion of the project, assumptions and options for the initial toll policy and finance plan were approved by the Board of Directors on October 12, 2015. These assumptions and options were used to develop an investment-grade Traffic and Revenue Study. In addition, express lanes capital, operating, and maintenance costs, as well as estimated non-toll revenue and leakage have been projected. This information, along with current Measure M sales tax revenue forecasts, an updated project cost estimate, and interest rate projections have formed the basis for initial toll policy and preliminary finance plan recommendations.

Recommendations

- A. Approve the initial 405 Express Lanes Toll Policy.
- B. Approve the preliminary Interstate 405 Improvement Project Finance Plan.
- C. Allocate approximately \$10 million in internal funds to cover short-term, reimbursable project development costs.
- D. Reimburse the Orange County Unified Transportation Trust Fund for prior funding for project development.
- E. Authorize staff to process all necessary amendments to the Federal Transportation Improvement Program, and execute or amend all necessary agreements to facilitate the above actions.

Background

The Interstate 405 (I-405) between State Route 73 (SR-73) and Interstate 605 (I-605) carries between 257,000 and 370,000 Average Daily Traffic. Both the general-purpose (GP) and high-occupancy vehicle (HOV) lanes are severely congested during peak hours, and it is anticipated traffic will increase approximately 30 percent by 2040. Since 2005, the Orange County Transportation Authority (OCTA) has been working on developing improvement options for this corridor.

The I-405 Improvement Project (Project) includes adding one GP lane in each direction of I-405 from Euclid Street to I-605, consistent with Measure M2 Project K, and adding an additional lane in each direction that would combine with the existing HOV lane to provided dual express lanes in each direction on I-405 from SR-73 to I-605.

Funding for the express lanes component of the Project will come primarily from customers paying tolls when they choose to use the lanes in exchange for travel timesavings. Tolls will be the primary source of funding for the express lanes with non-recourse financing.

On April 27, 2015, the Board of Directors (Board) approved preliminary terms and conditions negotiated with California Department of Transportation (Caltrans) to establish roles and responsibilities related to project delivery, funding, and financing of the Project (Attachment A). The Board also directed staff to develop an initial toll policy for the express lanes and a preliminary finance plan for the Project.

On June 25, 2015, the Board Chairman created an Interstate 405 Toll Policy and Financial Plan Ad Hoc Committee (Ad Hoc) to guide the development of the toll policy and finance plan. Since then, the Ad Hoc has met and forwarded the following information to the OCTA Finance and Administration (F&A) Committee and the Board for consideration:

- Information concerning a Transportation Infrastructure Investment and Innovation Act (TIFIA) loan
- Assumptions and options for the development of an initial toll policy and a preliminary finance plan
- Investment-grade Traffic and Revenue (T&R) Study (Stantec presentation)

On April 20, 2016, the OCTA F&A Committee held a special two-hour workshop with Stantec to review T&R Study findings. Additional information was presented at the April 27, 2016, F&A Committee meeting which focused on:

- Assumptions related to 405 Express Lanes operations and maintenance costs (O&M), non-toll revenue and leakage developed by Parsons/HNTB (Attachment B) and,
- Initial financing observations from Sperry Capital Inc., OCTA's financial advisor (Attachment C)

Discussion

On October 12, 2015, the Board approved assumptions and options for the express lanes portion of the Project. These included pricing and toll adjustment methodologies, hours of operation, access points, non-toll revenues, prohibited vehicles, discounts/exemptions, toll collection methodology, and enforcement approaches.

Approved toll policy goals include:

- Provide express lanes customers with a safe, reliable, predictable commute
- Optimize throughput at free-flow speeds
- Increase average vehicle occupancy
- Balance capacity and demand to serve customers who pay tolls as well as people who rideshare or use transit
- Generate sufficient revenue to sustain the financial viability of the 405 Express Lanes
- Ensure all covenants in the financing documents are met
- Ensure any potential net excess toll revenues are used for I-405 corridor improvements

Options for Analysis

The OCTA/Caltrans preliminary terms and conditions specify the 405 Express Lanes are to open with an HOV2+ free policy for no less than three years subject to the results of the T&R Study and pending further funding considerations. The following six options were analyzed by Stantec:

- Option A HOV2+ free all day
- Option B HOV2+ free non-peak, HOV3+ 50 percent in peak
- Option B1 HOV2+ free non-peak, HOV3+ free all day

- Option C HOV3+ 50 percent in peak
- Option C1 HOV3+ free all day
- Option D Greater revenues (for rating agencies)

Currently, the peak is being defined as follows:

Weekdays 6:00 AM to 10:00 AM and 3:00 PM to 8:00 PM

Weekends 1:00 PM to 6:00 PM

Stantec's work has resulted in projections of traffic and gross potential toll revenue.

In addition to Stantec's T&R Study, Parsons/HNTB has provided assumptions related to non-toll revenue (account and violation fees), O&M costs, violations and leakage (the dollar value of trips evading a toll including pursuable violations, non-pursuable violations, and HOV status mis-declaration). These findings are based on OCTA's 91 Express Lanes experience, as well as information gathered by Parsons/HNTB from other express lanes facilities throughout the country. The formulas below illustrate how net revenues available for debt service were calculated.

- Net Revenues Available for O&M =
 $(\text{Gross Potential Toll Revenue} - \text{Leakage}) + (\text{Non-Toll Revenue})$, and
- Net Revenues Available for Debt Service =
 $(\text{Net Revenues Available for O\&M}) - (\text{O\&M Costs})$

Initial Financing Observations

Once net revenues available for debt service were calculated, Sperry Capital, OCTA's financial advisor, projected financing results assuming TIFIA or toll bond financing. Attachment C summarizes initial financing observations. As the toll policy options move from A to C, the potential for financing improves. Option A offers the least potential for financing, and Option C offers the greatest potential for financing.

Key Findings – Options Comparison

Option A – HOV2+ Free All Day

An Option A toll policy results in express lanes traffic where approximately three out of every four trips, about 75 percent, are non-toll paying HOV trips. This option supports goals to optimize throughput and increase average vehicle occupancy; however, it results in operational and financial deficiencies.

On the operational side, there is projected to be peak-period congestion and queuing in the single-lane confluence areas at the northern and southern sections of the express lanes. With this toll policy, express lanes customers could not be assured of a reliable or free-flow trip. In addition, there are not enough toll paying customers to generate sufficient revenue to finance the Project. For these operational and financial reasons, Option A is not recommended.

Option B – HOV2+ Free Non-Peak, HOV3+ 50 Percent in Peak

Option B maintains the existing HOV2+ occupancy requirement for all but peak hours. HOV3+ vehicles pay 50 percent of the posted toll in the peak. Under this policy, by 2030, HOV trips represent about a third of all trips in the express lanes. This option generates more toll revenue than Option A and may be financeable with TIFIA and/or toll road revenue bonds.

Option B1 – HOV2+ Free Non-Peak, HOV3+ Free All Day

Option B1 is a variation of Option B. HOV3+ vehicles can use the express lanes at no charge all day. As a result, of this policy, by 2030, almost half of all express lanes trips are HOVs. This option incentivizes HOV traffic but generates less revenue than Options B and C. This option may be financeable with TIFIA and/or toll road revenue bonds.

Option C – HOV3+ 50 Percent in Peak

This option is most similar to the toll policy of the 91 Express Lanes where HOV3+ vehicles pay 50 percent of the posted toll in the peak hours. This option generates more revenue than other options, but results in fewer express lanes trips. Under this option, just under 20 percent of all trips are HOVs. This is the best option in terms of revenue generation and potential Project financing. Option C is financeable with TIFIA and/or toll bonds.

Option C1 – HOV3+ Free All Day

Option C1 is a variation of Option C. HOV3+ vehicles can use the express lanes at no charge all day. It was analyzed to determine whether offering HOV3+ carpoolers free trips all day – including peak hours – would incentivize

HOV traffic. Under this option, nearly 30 percent of trips would be HOV trips – more than Option C. This option generates more revenue than Options A, B, or B1, but less than C. Option C1 is likely financeable with TIFIA and/or toll bonds.

Outreach

To gather feedback on the Stantec T&R Study results and Parsons/HNTB assumptions related to express lanes operations, maintenance, non-toll revenue and leakage, as well as share Sperry Capital's initial financing observations, staff has involved technical teams from the Federal Highway Administration (FHWA) and Caltrans. Staff has held three workshops with these partners to gather input and insights and share Project information. In addition, staff has hosted two corridor city steering committee meetings to share information and answer questions. Based on the technical work and outreach, an initial toll policy for inclusion in the preliminary finance plan is being recommended.

Initial Toll Policy Recommendation

Staff is proposing the Board adopt a hybrid option as an initial toll policy that offers a balanced approach to meet the toll policy goals. Hybrid Option B1/C1 includes:

- Use of Option B1 from opening through the first 3.5 years
 - HOV2+ free non-peak, pays toll in peak
 - HOV3+ free all day

- Use of Option C1 for the balance of the finance plan term
 - HOV2+ pays toll all day
 - HOV3+ free all day

This toll policy is designed to fulfill the commitment to offer HOV2 carpoolers free trips for a minimum of three years of operation. It also would serve to:

- Offer customers a safe, reliable, predictable trip
- Support throughput at free-flow speeds
- Encourage HOV trips and increase average vehicle occupancy
- Balance capacity between toll paying customers and those who rideshare or use transit
- Provide sufficient revenue to sustain the viability of the express lanes
- Provide flexibility so that covenants in financing documents can be met

Should this toll policy be approved, two-plus carpoolers would use existing HOV lanes for the duration of the design and construction of the Project (approximately seven years). In addition, two-plus carpoolers would be eligible to use the express lanes for free during non-peak hours, including shoulder hours, for another three and one-half years.

Should Caltrans change the State of California occupancy requirements for HOV lanes from HOV2+ to HOV3+ to address HOV lane degradation, it is recommended the express lanes follow suit at that time. This would mean the 405 Express Lanes would adopt an HOV3+ minimum occupancy requirement for free or discounted trips. This is anticipated and very likely as the Southern California Association of Governments Regional Transportation Plan includes this policy change, although the actual conversion year is uncertain.

Trigger Point for Defining Peak

The rationale for recommending the hybrid Option B1/C1 is that, during the ramp-up period, there should be capacity during shoulder hours – those hours slightly before and after peak hours – to accommodate HOV2+ free traffic. To ensure the shoulder hour volumes do not become congested, it is recommended the Board adopt a trigger point to re-define the peak should volumes begin to approach maximum optimal capacity.

Over time, it is assumed volumes will continue to grow in the hours that straddle the peak i.e. weekdays 5:00 AM to 6:00 AM or 2:00 PM to 3:00 PM. A proposed trigger to change these hours from non-peak to peak would mirror the toll adjustment methodology approved by the Board for peak hours. Hourly traffic volumes would be monitored, and when volumes are at or above 92 percent of optimal maximum capacity (3,400 vehicles per hour per direction), they are flagged. If this occurs more than six times within a 12-week rolling period, the hour would be identified as a peak toll hour and priced at a rate to manage congestion and ensure a free-flow trip.

The initial 405 Express Lanes toll policy recommendation – based on previously approved assumptions and the recommended hybrid B1/C1 toll policy option is included as Attachment D.

Preliminary Finance Plan

A toll policy is required prior to opening the express lanes to develop the finance plan for the entire Project. However, both this toll policy recommendation, as well as the finance plan, should be viewed as preliminary and could be subject to change as the Project advances.

A number of variables could arise that would require staff to return to the Board with updated recommendations. For example, for the purposes of the preliminary finance plan, a Project cost estimate of \$1.9 billion is being used. This is based on a recently completed FHWA Cost Estimate Review plus contingencies for unassigned risk. The Project cost estimate may change once the design-build proposals are received. Contract award is scheduled for Fall 2016, but funding needs to be in place prior to the issuance of the final Notice to Proceed.

For Project cost estimate of \$1.9 billion, the TIFIA loan request will total approximately \$627 million, equal to 33 percent of the eligible Project costs. The TIFIA loan, along with Measure M funds, state funds, and federal funds will provide the sources of funds for the Project. TIFIA is a federal credit program for eligible surface transportation projects of regional or national significance under which the United States Department of Transportation (USDOT) may provide credit assistance. A TIFIA loan provides many benefits and could substantially reduce the costs associated with obtaining financing for the Project.

State funding for the Project, provided by Caltrans, is \$82 million. The federal funds include \$35 million from Surface Transportation Program (renamed under the FAST Act to Surface Transportation Block Grant), \$1.13 million from Interstate Maintenance Discretionary Program, \$8.528 million from High Priority Projects earmarks from the Transportation Equity Act for the 21st Century and Safe, Accountable, Flexible, Efficient, Transportation Equity Act: a Legacy for Users, and \$990,000 from 2006 appropriations bill earmarks. The table below shows the source of the funds for the Project:

Source of Funds	Amount
Measure M Pay As You Go Funds/Bonds	\$ 1,145,352,000
Federal Funds	45,648,000
State Funds	82,000,000
TIFIA Loan	627,000,000
Total Sources	\$1,900,000,000

The Board recently approved a new forecasting approach for Measure M sales tax collections. This new approach estimated that approximately \$1.24 billion would be available for the GP lanes component of the Project. Under the preliminary financing plan highlighted above, the full \$1.24 billion would not be required. The ability to borrow 33 percent of the eligible Project costs for the TIFIA program would lessen the requirement from the Measure M Program.

The Measure M Ordinance approved by Orange County voters in 2006 states that “pay as you go” financing is the preferred method of financing transportation improvements and operations. However, OCTA may use bond financing as an alternative method if the scope of planned expenditures makes “pay as you go” financing unfeasible. Given the cost of the I-405 GP lanes and the amount of Measure M revenues received to date and projected to be received by fiscal year 2023, OCTA will issue Measure M sales tax revenue bonds over the next several years to fund the GP lanes component of the Project. Pay as you go funds will be used during the first few years of construction.

It is recommended that 405 Express Lanes revenue solely secure the TIFIA loan. Measure M funds would not be pledged to repay the amounts borrowed under the TIFIA loan. This approach has been modeled in the financing scenario included in Attachment E and is financially sustainable based upon the assumptions included to date. If the full amount of a TIFIA loan is not received, OCTA could issue toll road revenue bonds, secured by toll road revenues, to assist in funding the Project.

Internally Borrowed Funds

In March 2015, the Board authorized the use of up to \$500,000 from the Orange County Unified Transportation Trust (OCUTT) fund to pay for the costs associated with the express lanes component of the Project until receipt of state funding. The amount borrowed from OCUTT totals approximately \$350,000, which includes interest owed. OCTA has received some of the state funding for the Project and, therefore, is recommending repaying the outstanding balance owed to OCUTT.

State funding is received on a reimbursement basis. To handle cash flow requirements for the costs associated with the express lanes portion of the Project, it is recommended that the Board authorize the use of up to \$10 million for short-term funding needs. This is not an additional contribution to the Project, it simply serves as a bridge loan for cash flow purposes. Once all state funds have been received, this short-term funding need will no longer be required.

Finance Related Next Steps

On March 24, 2016, the USDOT notified OCTA that its Letter of Interest for the TIFIA loan met the requirements for TIFIA participation and was ready to advance to the next phase. The next phase includes an in-depth creditworthiness review of OCTA and the Project by the USDOT. The creditworthiness review involves an evaluation of the preliminary finance plan and the feasibility of the anticipated pledged revenue stream. This

creditworthiness review will require an indicative rating. If approved by the Board, OCTA will submit the preliminary finance plan, which includes the initial toll policy, to Standard and Poor's (S&P) for an indicative credit rating.

Following the completion of USDOT's in-depth review of OCTA's creditworthiness, including the receipt of an indicative credit rating from S&P, and a \$100,000 fee, the USDOT will ask OCTA to provide an oral presentation on the Project and its preliminary finance plan. Once USDOT completes a final successful review after OCTA's oral presentation, the USDOT will then invite OCTA to submit a formal TIFIA loan application. A request to submit an application does not guarantee that OCTA will receive TIFIA credit assistance, which remains subject to final approval by the Secretary of the USDOT.

Summary

The Orange County Transportation Authority is advancing the I-405 Improvement Project. An initial toll policy is being recommended for the express lanes portion of the project along with a preliminary finance plan for the entire project.

Attachments

- A. I-405 Project Implementation (Alternative 3) Preliminary OCTA/Caltrans Agreement on Terms as of April 16, 2015
- B. 405 Express Lanes Finance Plan Assumptions (Parsons /HNTB)
- C. Initial Financing Observations (Sperry Capital Inc. April 2016)
- D. 405 Express Lanes Toll Policy
- E. Interstate 405 Improvement Project - Preliminary Finance Plan, May 2016

Prepared by:

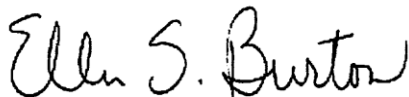


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ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Attachment A

**I-405 Project Implementation (Alternative 3)
Preliminary OCTA/Caltrans Agreement on Terms
As of
April 16, 2015**

1. Project Delivery

- a. OCTA is lead agency for procuring the design-build "db" contractor and/or toll systems integrator, as well as the provider of toll collection services for the project.
- b. Project delivery will be based on pending legislation & AB 401.
- c. Current implementation Co-Op for the db phase of the project can proceed followed by an agreement consistent with tolling authorization "Operating Toll Agreement".

2. Project Funding & Financing

- a. OCTA is responsible for developing the overall funding/financing plan for the project, including use of Measure M2 funds for the GP lanes. OCTA shall be the issuer of any indebtedness and shall be the borrower under any TIFIA loan. While OCTA is responsible for development of the overall funding/financing plan, OCTA will share information concerning the plan with Caltrans during the development process.
- b. Parties agree to seek additional State and Federal discretionary grant opportunities for the tolled portion of the project.
- c. Caltrans will provide \$82 million to be programmed in FY 2015/16 to be used towards constructing the project (Caltrans Preferred Alternative).
- d. OCTA will pursue TIFIA funding with due consideration for related requirements and project schedule considerations.
- e. Operating Toll Agreement (including tolling authority) with the state will extend a minimum of five years beyond the initial bonding period/term required for financing. If toll revenues are found to be insufficient to cover all costs for operations, maintenance, and financing requirements, and refinancing of the debt is required, the Operating Toll Agreement can be extended additional years (beyond the existing 5 years) to provide an extended financing term.

3. Operations

- a. OCTA operates or shall retain a private operator to operate the toll collection facilities.
- b. The facility to open with a HOV2+ free policy for no less than 3 years.¹
- c. Caltrans & OCTA recognize performance/operational and financial triggers will be established to switch to HOV3+ or if state implements a 3+ policy on state highways through changes to State law or through the administrative process.
- d. Parties agree there will be an exemption for ILEVs (such as customers with "green sticker".) However, customers will be required to pre-register their vehicles as is the policy on the SR 91 Express Lanes. There will be an agreed upon cap on number of such vehicles.
- e. The parties agree that 55 - 60 mph¹ is an appropriate target speed.

¹ Subject to results of the I-405 Traffic and Revenue study to be completed at a later date and further additional funding considerations.

- f. The parties agree that continuous access may be detrimental to financial and operational requirements of managed lanes based upon current technology, enforcement and safety considerations, however, consideration of continuous access should not be precluded in the future.
- g. Tolls shall be collected electronically and use congestion pricing to manage demand.
- h. OCTA decides on toll policies and agrees to toll lanes performance measures as will be outlined in the Operating Toll Agreement. The Parties agree that a goal of the Project should be to increase the Average Vehicle Occupancy of the Corridor.

4. **Net Excess Revenues (after payment of O&M on the managed lanes including toll collection costs, debt service for obligations payable from tolls, funding of debt and project reserves, and required repayment of TIFIA loan)**

The parties agree that development of an Expenditure Plan will be developed in partnership between each agency and consistent with the following terms below:

- a. The Parties shall develop a multiyear expenditure plan for use of Net Excess Revenues within the Corridor. This expenditure plan shall cover a period of either ten years or the full term of all financing used to construct or repair any portion of the toll facility project, whichever is longer. The Expenditure Plan shall be updated annually.
 - i. OCTA's Board of Directors shall review and adopt the expenditure plan and each update.
- b. Net Excess Revenues shall be used for projects that maintain or improve the safety, operation, or travel reliability of any transportation mode in the corridor, or provide or improve travel options in the corridor.
- c. General Purpose lanes capital and preventive maintenance and operational improvements are eligible expense and will be included in the annual Expenditure Plan in compliance with Federal law.
- d. The use of net excess revenue to pay for projects in the Expenditure Plan will not result in reducing SHOPP funds targets available to the County.
- e. Similar to the SR 91 Express Lanes, the Parties agree that OCTA will be responsible for implementing all projects required for the operation and maintenance of the Project tolled express lanes and associated toll collection facilities. Caltrans will be responsible for implementing non-toll related projects on the State Highway System that are funded from Net Excess Toll revenue.



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Attachment B



405 Express Lanes Finance Plan Assumptions

Non-Toll Revenue

Operating Costs

Violations

Net Revenue Before Debt Service

Net Revenue Available for Operations & Maintenance (O&M)

	Gross Potential Toll Revenue*	(GPTR)
-	Dollar Value of Trips Not Paying Toll	(also known as leakage)
+	<u>Non-Toll Revenue**</u>	(NTR)
	Net Revenue Available for O&M	

* GPTR = (Trips x Toll)

**Non-Toll Revenue = Account, violation, and other fees

Net Revenue Available for Debt Service

Net Revenue Available for O&M

- (Operating + Maintenance)

Net Revenue Available for Debt Service*

* If debt service and debt service coverage ratios are met, and operating and major maintenance reserves are fully funded, there could be net excess revenues available for transportation improvements within the I-405 corridor.

91 Express Lanes vs. 405 Express Lanes

91 Express Lanes

- 20 years of operating history
- Stable finances
- 10 miles each direction
- Single ingress/egress
- 3+ HOV travel at discount
- 3+ occupancy declaration lane



405 Express Lanes

- No operating history
- Ramp-up risk
- 14 miles each direction
- Multiple ingress/egress points
- HOV definition not resolved yet
- No 3+ declaration lane. Switchable transponder for occupancy declaration

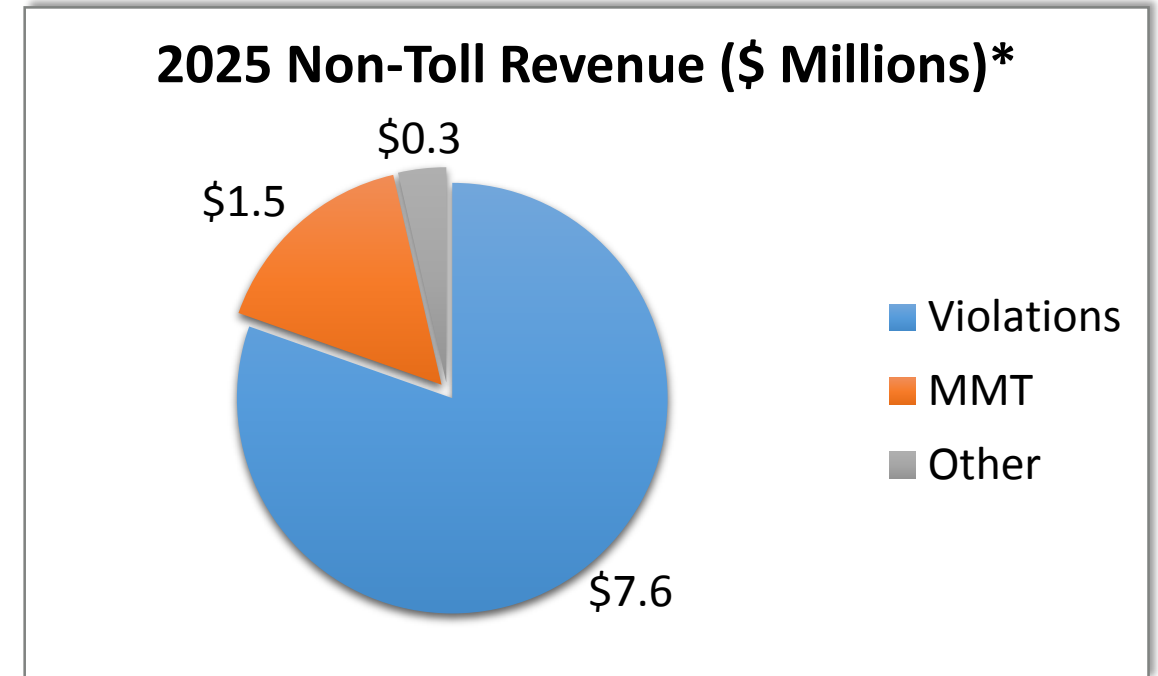


General Assumptions / Approach

- Based on Stantec projections, escalated 2% per year
- Used “average transactions per trip” estimates
- Benchmarks were from 91 Express Lanes (91 EL) and other projects
- Assumed:
 - 3-year “ramp up” period
 - 90% of trips by other agency transponder accounts
 - 90% of accounts credit card / ACH replenishment
 - Average monthly trips per account mirrors 91 EL

Non-Toll Revenue Assumptions / Approach

- Most non-toll revenue:
 - Monthly Minimum Toll (MMT) fees
 - Violation fines
- Assumptions mirror 91 EL:
 - Percent of accounts paying MMT
 - Collectability of violation fines
 - Other fees*



* Option B

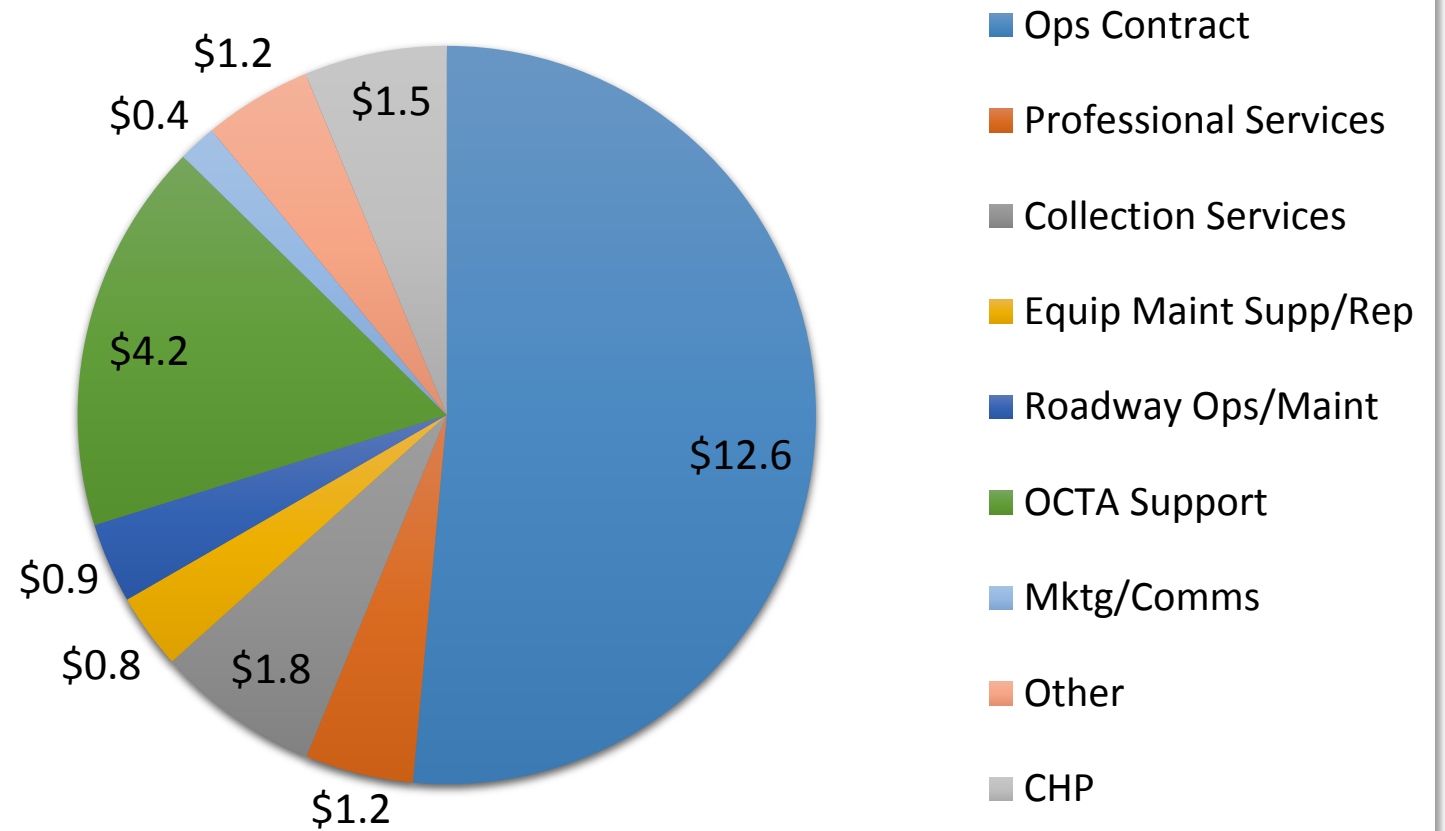
- Non-toll fees, fines held constant to 2028
 - Post 2028, assume a percentage of GPTR

* Other fees: Convenience plan, account deactivation, non-sufficient funds, plate read fees

Operating Expense - Major Categories

- Operations Contract
- OCTA Support Services
- Professional Services
- Collection Services
- Equipment Maintenance Supplies and Repairs
- Roadway Operations & Maintenance
- CHP services
- Marketing/Communications

2025 Operating Expense (\$ Millions)*



* Option B

Operating Expense Assumption / Approach

- Based on stand-alone 405 Express Lanes operations
- Assumes operating contract similar to 91 EL
- For some expenses, used 91 EL as a baseline, eg:
 - 10 miles for 91 EL and 14 miles for 405 EL = 1.4 x relationship
- Other costs based on Program Management Consultant (PMC) analysis

Operating Expense Assumptions/Approach

- Customer Service Center (CSC)/Back Office (BOS) and roadway toll systems included at anticipated market cost
 - Based on full-functionality, state-of-art system and recent PMC experience
 - Adjusted for system size
- Reduced certain expenses first year, eg:
 - Year 1 CSC/BOS system maintenance expected to be capitalized
 - Collections expense delayed due to lag in violation processing
- Additional CHP enforcement first three years
- Operating contract escalation at 3%
- General expense escalation at 2%

Leakage Assumptions/Approach

- Three categories of leakage:
 - **Pursuable violation** - No valid FasTrak[®] account, able to pursue violation through DMV record
 - **Non-pursuable violation**- No valid FasTrak[®] account, unable to pursue (paper plate, blocked plate)
 - **HOV status mis-declaration** – Valid FasTrak[®] account, declaring as HOV when not a valid HOV*
- Number of FasTrak[®] account violation percentages based on 91 EL and other EL experiences
- Mis-declaration percentage assumptions based on other EL experience

* For free or discounted trip. Mis-declaration violations are non-pursuable through the DMV process.

Leakage Assumptions/Approach

- No valid FasTrak[®] account violations assumptions
 - Year 1 – 6% pursuable, 6% non-pursuable
 - Year 2 – 4.5% pursuable, 4.5% non-pursuable
 - Year 3 – 3% pursuable, 3% non-pursuable
- Mis-declaration assumption 20% of HOV trips year 1; reducing to 10% in year 3*
- Assume aggressive enforcement reduces violations to steady state in three years
- When viewed as % of GPTR, after ramp-up (2025), gross leakage % ranges from a low of 9.2% (Option C) to a high of 37.4% (Option A)
- After ramp-up (2025), gross leakage is more than offset by non-toll revenue for all options except Option A

* Percent of inaccurate HOV declarations

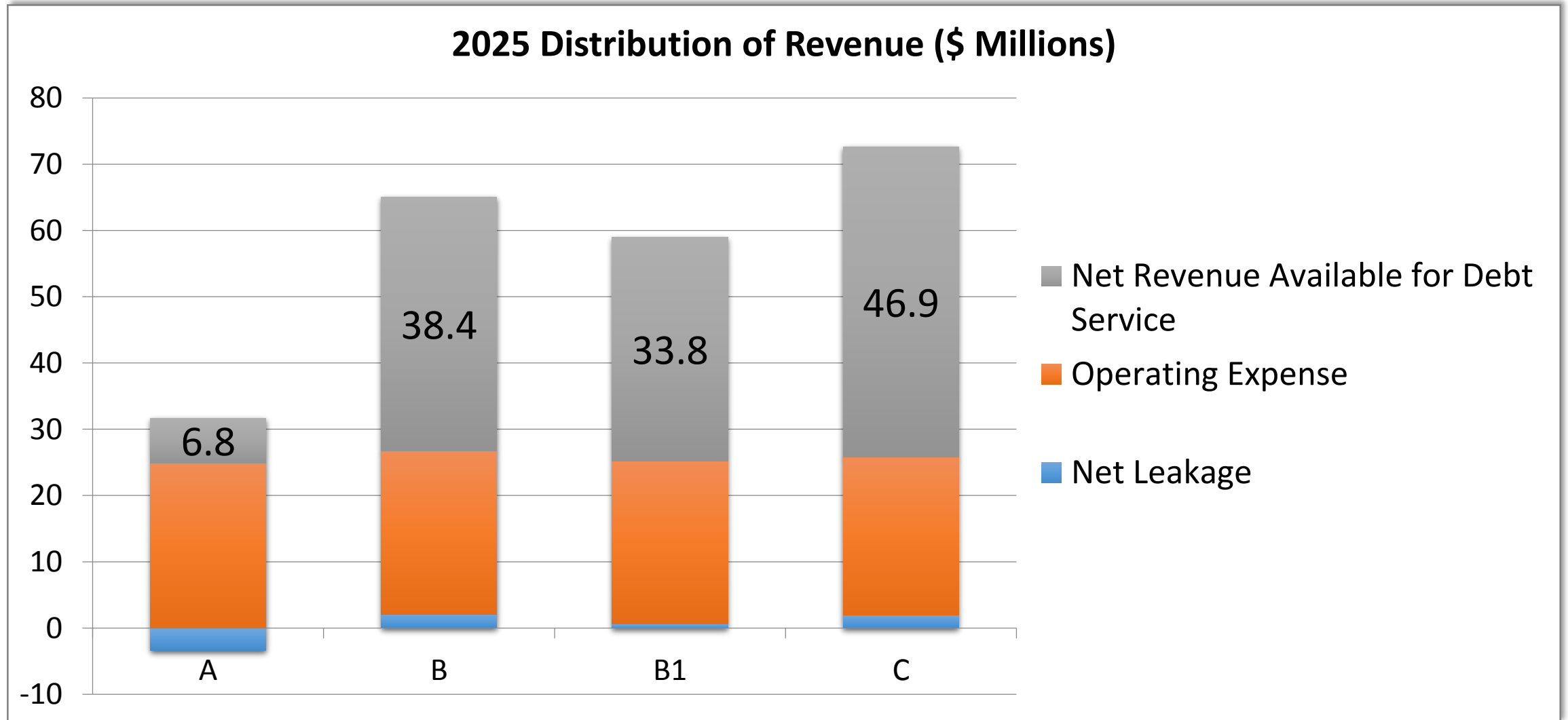
Net Revenue Before Debt Service Results From First Three Years

FY 2023 (1/2 year)				
	A	B	BI	C
Gross Toll Revenue	\$10,065,726	\$16,201,120	\$14,469,408	\$18,358,731
Leakage	(\$7,795,724)	(\$3,496,301)	(\$4,029,879)	(\$2,839,291)
NTR	\$3,194,664	\$3,227,384	\$3,155,708	\$2,880,102
Revenue Subtotal	\$5,464,666	\$15,932,204	\$13,595,236	\$18,399,542
O&M	\$9,160,489	\$9,003,389	\$8,999,233	\$8,700,723
Net Revenue	(\$3,695,823)	\$6,928,815	\$4,596,004	\$9,698,819

FY 2024				
	A	B	BI	C
Gross Toll Revenue	\$25,199,722	\$41,991,968	\$37,372,935	\$47,491,784
Leakage	(\$15,883,102)	(\$7,691,254)	(\$8,825,506)	(\$6,355,269)
NTR	\$9,500,948	\$9,515,520	\$9,339,562	\$8,467,243
Revenue Subtotal	\$18,817,568	\$43,816,234	\$37,886,991	\$49,603,757
O&M	\$24,188,269	\$23,937,281	\$23,888,158	\$23,144,216
Net Revenue	(\$5,370,701)	\$19,878,952	\$13,998,833	\$26,459,541

FY 2025				
	A	B	BI	C
Gross Toll Revenue	\$35,050,966	\$60,949,721	\$57,918,082	\$68,798,826
Leakage	(\$13,141,173)	(\$7,336,149)	(\$8,814,523)	(\$6,332,781)
NTR	\$9,732,054	\$9,442,042	\$9,365,875	\$8,302,973
Revenue Subtotal	\$31,641,847	\$63,055,615	\$58,469,435	\$70,769,019
O&M	\$24,869,642	\$24,634,673	\$24,637,910	\$23,821,406
Net Revenue	\$6,772,205	\$38,420,942	\$33,831,524	\$46,947,612

Distribution of GPTR - 2025



Summary

- Operationally, the 405 EL are different than the 91 EL and neighboring EL
- The definition of non or discounted toll (HOV2+ vs. HOV3+) significantly impacts revenue and leakage.
- The higher the percentage of non-toll or discounted trips, the lower the revenue and the higher risk of leakage from mis-declarations
- Operating expenses do not fluctuate significantly between options
- Option A significantly underperforms other options
 - Lower revenue
 - Higher leakage
 - Less net revenue available for debt service
- Option C produces maximum Net Revenue Available for Debt Service



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Attachment C

Initial Financing Observations

Sperry Capital Inc.

April 2016



Historical and Current Market Rates

30yr U.S. Treasury Bond Yield



- Since April 2010, 30yr U.S. Treasury (UST) averaged 3.36%
- Over the last year, 30yr UST averaged 2.88%
- As of April 21, 2016, 30yr UST yield was 2.68%

Source: Federal Reserve System H. 15 Selected Interest Rates (Daily)

BBB- Rating a Reality for 405 Express Lanes Debt

- Construction completion risk, schedule and budget
- Traffic demand characteristics
 - Ramp-up risk
- Toll policy, legal and political flexibility to increase tolls if required
- Adequate reserves for Operations and Maintenance (O&M) and Major Maintenance
- Debt structure
 - Level or Ascending Debt Service
- Debt Service Coverage Ratio (DSCR)
 - Estimated Minimum DSCR of 1.30x for TIFIA Loan
 - Estimated Minimum DSCR of 1.75x for Toll Revenue Bonds

TIFIA vs Toll Revenue Bonds (based on BBB- ratings)

	TIFIA Loan	Toll Revenue Bonds
Interest Rate	UST + 1 basis point	Benchmark + Credit Spread
Interest Costs Begin	At Fund Disbursement	At Financial Close
Financing Amount	33% of Eligible Costs	Limited to Net Revenues
Debt Service Reserve Fund (DSRF)	Funded after completion (as early as 2023)	Funded at Financial Close (2017)
Principal Deferral Potential	YES	NO
Debt Maturity	35 years after completion	30 - 35 years after Financial Close
Debt Capacity Based on FY Net Revenues	2028	2024
Estimated Minimum Debt Service Coverage Ratio (DSCR)	1.30x	1.75x
Accreted Interest	YES	NO
Capitalized Interest	NO	YES

Components of Toll Revenue Bond Issuance

- A project fund need of approximately \$400 million results in a \$712 million toll revenue bond issuance

Par Amount	\$712.2 Million
Deposit to 405 Express Lanes Project Fund	\$398.1 Million
Capitalized Interest during Construction	\$257.8 Million
DSRF	\$48.3 Million
Costs of Issuance	\$8.0 Million

- Capitalized interest during construction is an expensive and significant component of any toll revenue bond financing option

Financing Objectives

- Successfully Finance the I-405 Improvement Project, including the 405 Express Lanes
- Minimize financing costs
- Obtain Non-Recourse Investment Grade Ratings for the 405 Express Lanes
- Maintain Measure M2 Flexibility and Bond Ratings
- Utilize Conservative Debt Structures
- Preserve Options for TIFIA Loan and/or Toll Revenue Bonds
- Stand Alone Financing for 405 Express Lanes

Assumptions

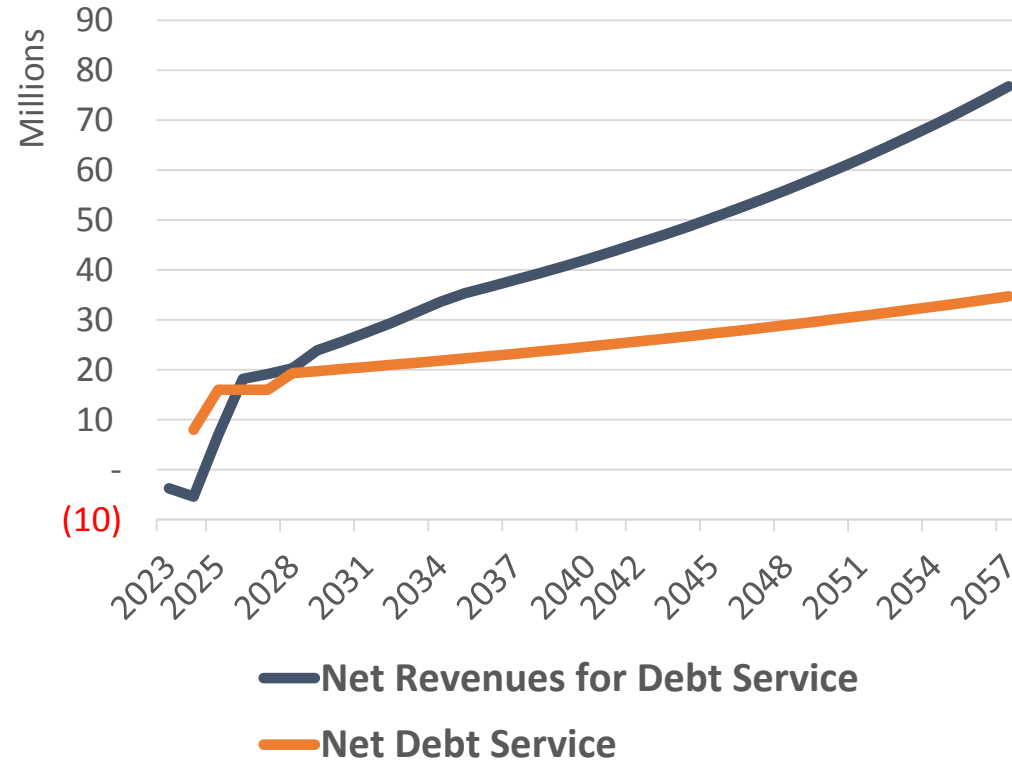
- Stantec gross potential toll revenue and transaction forecasts (March 31, 2016) escalated at 2% per year
- Parsons/HNTB projected O&M expenses, non-toll revenues and leakage (April 2016)
- Interest rates as of March 30, 2016 + 75 basis points
- Structured to minimum debt service coverage ratio
 - TIFIA – 1.30x
 - Toll Revenue Bonds – 1.75x
- Ascending debt structure at 2% growth annually
- DSRF; maximum annual debt service required
- O&M and Major Maintenance reserves are funded with net toll revenues after debt service payments

Option A: Initial Cash Flow Pro Forma (*\$ millions*)

COLUMN	A	B	C = A + B	D	E	F = C + D + E	G	H = F + G
Fiscal Year Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ²	DSRF Earnings ³	Gross Revenues	O&M ²	Net Revenues For Debt Service
2023	10.1	(7.8)	2.3	3.2	0.0	5.5	(9.2)	(3.7)
2024	25.2	(15.9)	9.3	9.5	0.0	18.8	(24.2)	(5.4)
2025	35.1	(13.1)	21.9	9.7	0.2	31.9	(24.9)	7.0
2026	45.8	(11.6)	34.2	9.2	0.2	43.7	(25.5)	18.2
2027	47.8	(11.8)	35.9	9.2	0.2	45.4	(26.2)	19.2
2028	49.9	(12.1)	37.8	9.2	0.2	47.2	(26.9)	20.3

1. Per Stantec March 31, 2016, escalated at 2% from \$2015
2. Per Parsons/HNTB on April 11, 2016
3. Represents interest earnings in USTs

Option A: TIFIA



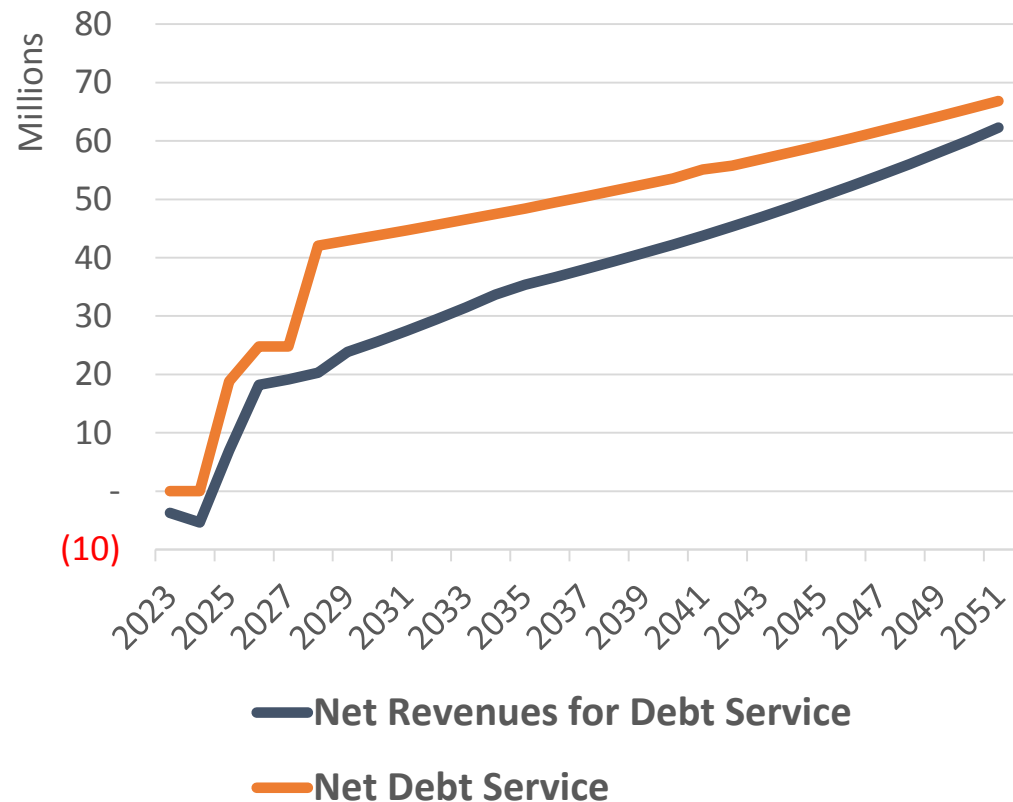
Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	(3.7)	-	N/A
2024	(5.4)	8.0	N/A
2025	7.0	16.0	0.44x
2026	18.2	16.0	1.14x
2027	19.2	16.0	1.20x
2028	20.3	19.4	1.05x
2029	23.9	19.7	1.21x
2030	25.6	20.2	1.27x
2031	27.5	20.6	1.34x
2032	29.4	21.0	1.40x
2033	31.5	21.4	1.47x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option A: Toll Revenue Bonds



Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	(3.7)	-	-
2024	(5.4)	-	-
2025	7.0	18.8	0.37x
2026	18.2	24.8	0.73x
2027	19.2	24.8	0.77x
2028	20.3	42.1	0.48x
2029	23.9	42.9	0.56x
2030	25.6	43.8	0.59x
2031	27.5	44.7	0.62x
2032	29.4	45.6	0.65x
2033	31.5	46.5	0.68x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

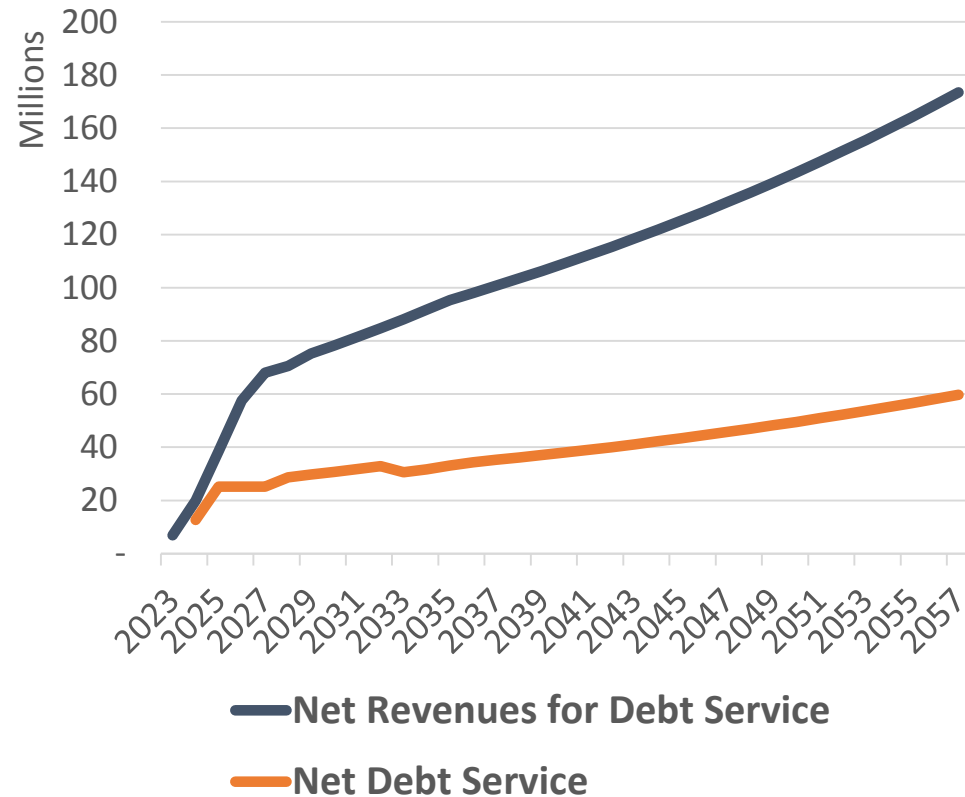
DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option B: Initial Cash Flow Pro Forma (*\$ millions*)

COLUMN	A	B	C = A + B	D	E	F = C + D + E	G	H = F + G
Fiscal Year Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ²	DSRF Earnings ³	Gross Revenues	O&M ²	Net Revenues For Debt Service
2023	16.2	(3.5)	12.7	3.2	0.0	15.9	(9.0)	6.9
2024	42.0	(7.7)	34.3	9.5	0.0	43.8	(23.9)	19.9
2025	60.9	(7.3)	53.6	9.4	0.2	63.2	(24.6)	38.6
2026	81.2	(7.3)	74.0	8.9	0.2	83.0	(25.3)	57.6
2027	93.6	(8.4)	85.2	8.8	0.2	94.2	(26.2)	68.0
2028	97.0	(8.7)	88.4	8.8	0.2	97.3	(26.7)	70.6

1. Per Stantec March 31, 2016, escalated at 2% from \$2015
2. Per Parsons/HNTB on April 11, 2016
3. Represents interest earnings in USTs

Option B: TIFIA



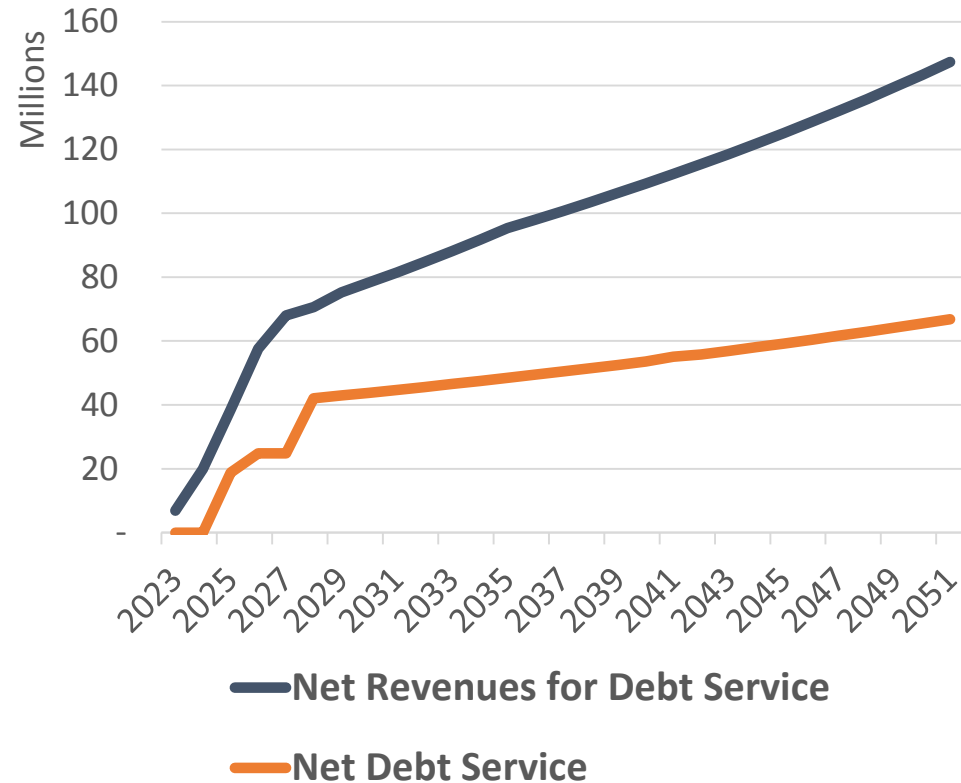
Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	6.9	-	-
2024	19.9	12.6	1.58x
2025	38.6	25.2	1.53x
2026	57.6	25.2	2.29x
2027	68.0	25.2	2.70x
2028	70.6	28.7	2.46x
2029	75.3	29.7	2.53x
2030	78.3	30.7	2.55x
2031	81.5	31.8	2.56x
2032	84.8	32.9	2.58x
2033	88.2	30.6	2.88x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option B: Toll Revenue Bonds



Project fund is \$398 M.....

Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	6.9	-	-
2024	19.9	-	-
2025	38.6	18.8	2.05x
2026	57.6	24.8	2.32x
2027	68.0	24.8	2.74x
2028	70.6	42.1	1.68x
2029	75.3	42.9	1.75x
2030	78.3	43.8	1.79x
2031	81.5	44.7	1.82x
2032	84.8	45.6	1.86x
2033	88.2	46.5	1.90x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

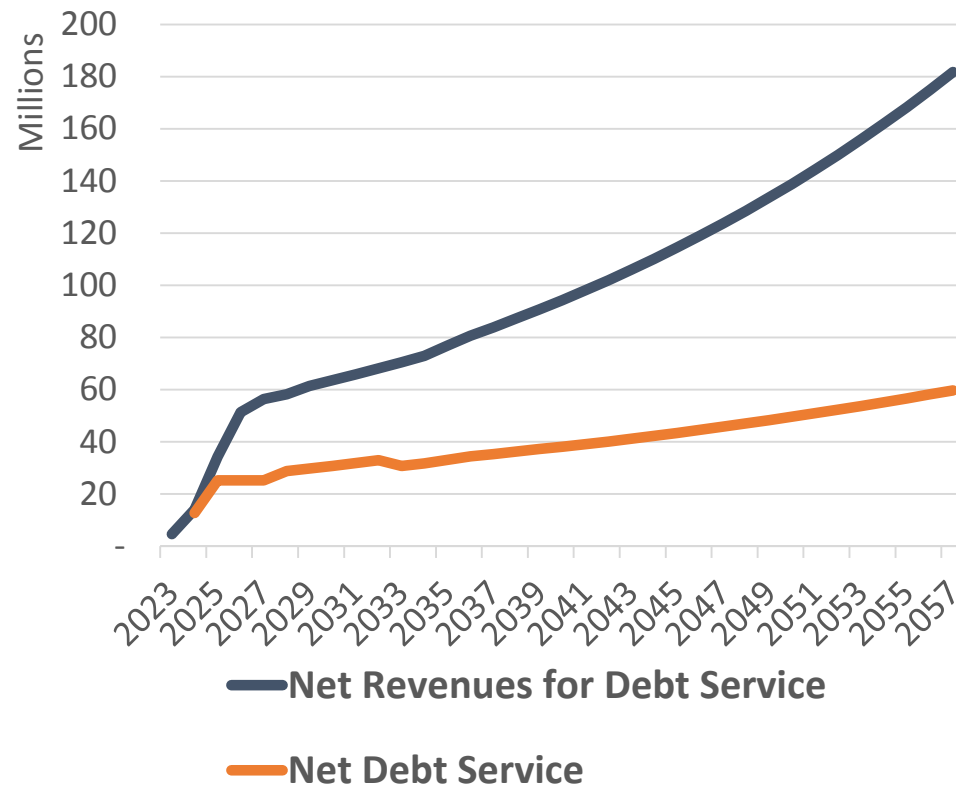
DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option B1: Initial Cash Flow Pro Forma (*\$ millions*)

COLUMN	A	B	C = A + B	D	E	F = C + D + E	G	H = F + G
Fiscal Year Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ²	DSRF Earnings ³	Gross Revenues	O&M ²	Net Revenues For Debt Service
2023	14.5	(4.0)	10.4	3.2	0.0	13.6	(9.0)	4.6
2024	37.4	(8.8)	28.5	9.3	0.0	37.9	(23.9)	14.0
2025	57.9	(8.8)	49.1	9.4	0.2	58.6	(24.6)	34.0
2026	75.8	(8.4)	67.4	8.8	0.2	76.4	(25.3)	51.0
2027	82.4	(9.2)	73.2	8.8	0.2	82.2	(26.1)	56.1
2028	85.2	(9.5)	75.6	8.8	0.2	84.6	(26.7)	57.9

1. Per Stantec March 31, 2016, escalated at 2% from \$2015
2. Per Parsons/HNTB on April 11, 2016
3. Represents interest earnings in USTs

Option B1: TIFIA



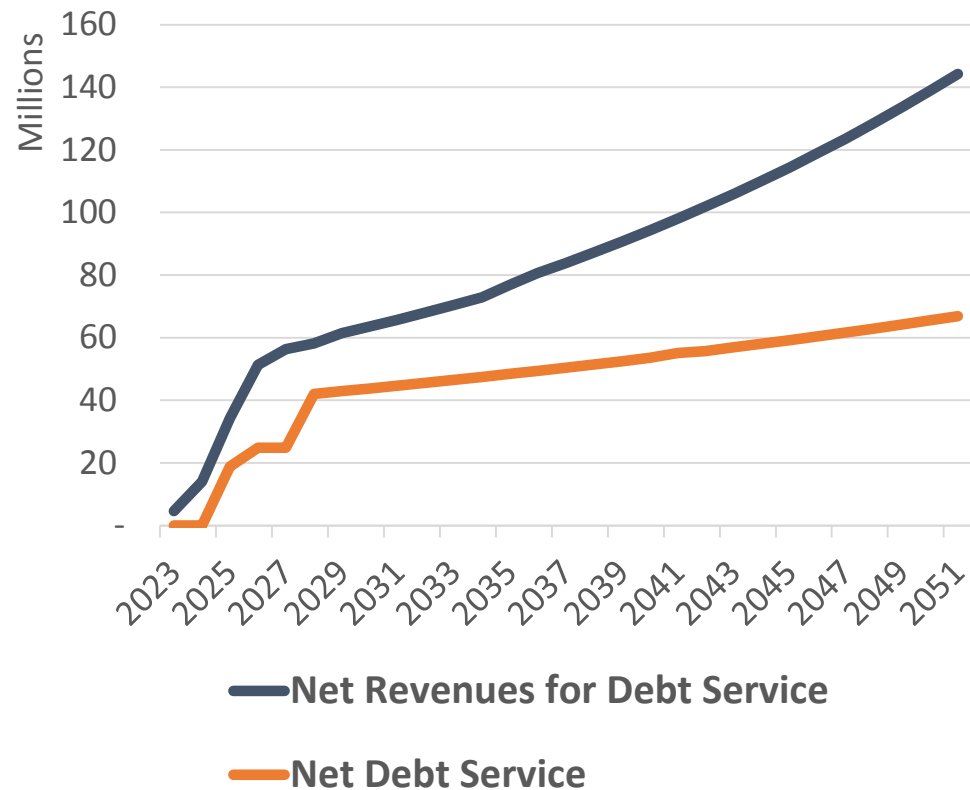
Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	4.6	-	-
2024	14.0	12.6	1.11x
2025	34.0	25.2	1.35x
2026	51.0	25.2	2.02x
2027	56.1	25.2	2.22x
2028	57.9	28.7	2.02x
2029	61.4	29.7	2.07x
2030	63.6	30.7	2.07x
2031	65.8	31.8	2.07x
2032	68.1	32.9	2.07x
2033	70.5	30.6	2.30x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option B1: Toll Revenue Bonds



Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	4.6	-	-
2024	14.0	-	-
2025	34.0	18.8	1.81x
2026	51.0	24.8	2.06x
2027	56.1	24.8	2.26x
2028	57.9	42.1	1.38x
2029	61.4	42.9	1.43x
2030	63.6	43.8	1.45x
2031	65.8	44.7	1.47x
2032	68.1	45.6	1.49x
2033	70.5	46.5	1.51x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

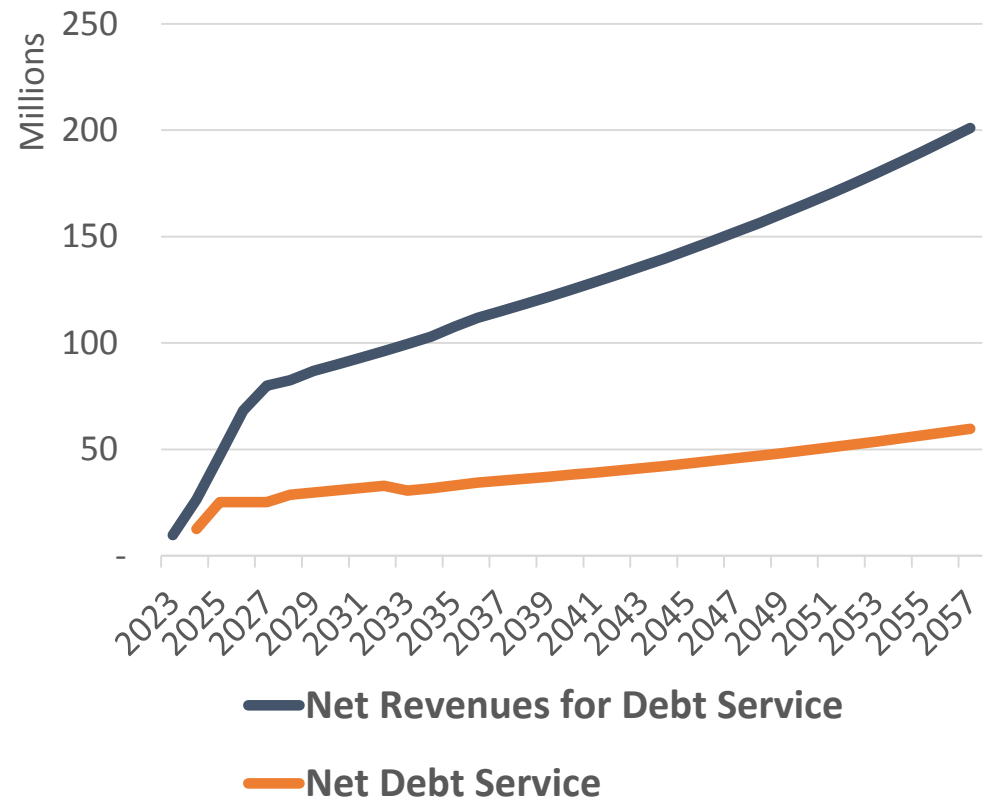
DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option C: Initial Cash Flow Pro Forma (*\$ millions*)

COLUMN	A	B	C = A + B	D	E	F = C + D + E	G	H = F + G
Fiscal Year Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ²	DSRF Earnings ³	Gross Revenues	O&M ²	Net Revenues For Debt Service
2023	18.4	(2.8)	15.5	2.9	0.0	18.4	(8.7)	9.7
2024	47.5	(6.4)	41.1	8.5	0.0	49.6	(23.1)	26.5
2025	68.8	(6.3)	62.5	8.3	0.2	70.9	(23.8)	47.1
2026	91.4	(6.5)	84.9	7.7	0.2	92.8	(24.6)	68.2
2027	104.9	(7.5)	97.4	7.7	0.2	105.3	(25.4)	79.9
2028	108.4	(7.8)	100.6	7.7	0.2	108.5	(25.9)	82.5

1. Per Stantec March 31, 2016, escalated at 2% from \$2015
2. Per Parsons/HNTB on April 11, 2016
3. Represents interest earnings in USTs

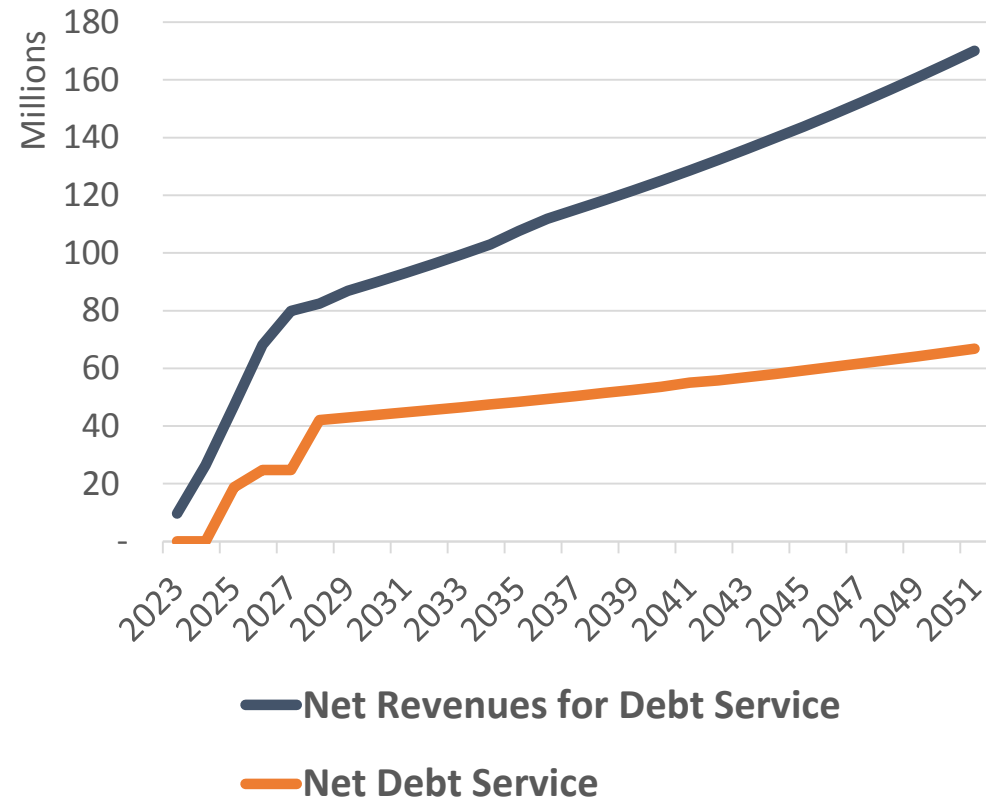
Option C: TIFIA



Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	9.7	-	-
2024	26.4	12.6	2.10x
2025	47.1	25.2	1.87x
2026	68.2	25.2	2.70x
2027	79.9	25.2	3.17x
2028	82.5	28.7	2.87x
2029	86.9	29.7	2.93x
2030	89.9	30.7	2.93x
2031	93.0	31.8	2.93x
2032	96.2	32.9	2.93x
2033	99.5	30.6	3.25x

Net revenues for debt service and net debt service provided in \$ millions.
 DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red
 DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Option C: Toll Revenue Bonds



Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	9.7	-	-
2024	26.4	-	-
2025	47.1	18.8	2.51x
2026	68.2	24.8	2.75x
2027	79.9	24.8	3.22x
2028	82.5	42.1	1.96x
2029	86.9	42.9	2.03x
2030	89.9	43.8	2.05x
2031	93.0	44.7	2.08x
2032	96.2	45.6	2.11x
2033	99.5	46.5	2.14x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Initial Financing Observations

- Toll Policy and Finance Plan are *preliminary*, subject to:
 - DB contract award
 - Obtaining two investment grade ratings
 - Interest rates at Financial Close

Initial Financing Observations (continued)

Investment Grade?	Option A	Option B	Option B1	Option C
Yes				Yes
Maybe		Maybe	Maybe	
No	No			

- Option A does not achieve OCTA financing objectives without a sizeable liquidity reserve
- Options B and B1 provide greater certainty than Option A
- Option C reasonably allows OCTA to achieve its financing objectives while preserving the 405 Express Lanes financial flexibility
- The initial analyses completed have not been stress tested by rating agencies, TIFIA or Toll Revenue Bond investors

Sperry Capital Inc.
Three Harbor Drive, Suite 101, Sausalito, California 94965





ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Attachment D



405 Express Lanes Toll Policy
Adopted (date)

Goals

- Provide express lanes customers with a safe, reliable, congestion-free commute.
- Optimize throughput at free-flow speeds.
- Increase average vehicle occupancy.
- Balance capacity and demand to serve customers who pay tolls as well as people who rideshare or use transit.
- Generate sufficient revenue to sustain the financial viability of the 405 Express Lanes.
- Ensure all covenants in the financing documents are met.
- Ensure any potential net excess toll revenues are used for Interstate 405 corridor improvements.¹

Definitions

Exhibit I, “Definitions”, clarifies terms used in this 405 Express Lanes Toll Policy.

Peak Hours

Currently peak hours have been designated as Monday through Friday from 6:00 a.m. to 10:00 a.m. and 3:00 p.m. to 8:00 p.m. and on weekends from 1:00 p.m. to 6:00 p.m. However, over time, the peak period traffic volumes may spread to hours that straddle the peak hours. To adjust for growth in the peak, hourly volumes will be monitored and, if within a 12-week rolling period, volumes reach or exceed 92 percent of maximum optimal capacity of 3,400 vehicles per direction more than six times, that hour will be designated a Peak hour and a

¹ After debt service, debt service coverage ratios, and reserves are met and as allowable by statute.

base toll rate will be applied as designated by OCTA's Traffic and Revenue consultant. This rate shall be sufficient to meet the goals of the toll policy. That hour would then be subject to peak hour monitoring and toll pricing.

The toll adjustment goals for peak hours are to: a) reduce the likelihood of congestion by diverting traffic to other hours with available capacity; b) maintain free flow travel speed in the 405 Express Lanes; c) maintain travel time savings; d) accommodate projected growth in travel demand and; e) ensure that the toll road generates sufficient revenue to effectively operate the toll lanes and maintain a strong debt service position.

The toll for use of the 405 Express Lanes during a Peak hour shall be determined as follows:

1. Hourly, day, and directional traffic volumes will be continually monitored on a rolling 12 consecutive week period basis. The review period of 12 weeks may be reduced to a shorter period during times of abnormal travel patterns in the I-405 corridor. Such abnormal traffic patterns shall include, but are not limited to, initial opening of the 405 Express Lanes and times of construction along I-405 or adjacent freeways or feeder routes.
2. Hourly, day, and directional traffic volumes of 3,128 or more will be flagged for further review.
3. If the hourly, day, and directional traffic volume is Consistently at a level of Peak then the toll rate for that hour, day, and direction may be increased.
4. The toll for that hour, day, and direction shall be increased, based on the average vehicle volume of the flagged hour, day, and direction identified per Section 2 above, as follows:
 - (a) if the average flagged vehicle volume is 3,300 or more then the toll shall be increased by \$1.00.
 - (b) if the average flagged vehicle volume is between 3,200 and 3,299 then the toll shall be increased by \$0.75.
 - (c) if the average flagged vehicle volume is less than 3,200 then the toll shall not be changed.

Six months after a toll increase, the most recent 12 consecutive weeks (excluding weeks with a Holiday or a major traffic anomaly caused by an accident or incident) shall be reviewed for the hour, day, and direction that the toll was increased. If the traffic volume is less than or equal to 2,720 vehicles per hour, day, and direction in six or more of the weeks then the traffic volumes for that hour, day, and direction for the 12 consecutive weeks shall be averaged. If the

average traffic volume is less than or equal to 2,720 then the toll shall be reduced by \$0.50 to stimulate demand and encourage 405 Express Lanes use.

OCTA's Board of Directors and customers will be informed of a toll adjustment 10 or more days prior to that toll adjustment becoming effective.

Non-Peak Hours

All Non-Peak hours will generally remained at fixed levels within a broad band of categories, increasing annually by the Inflation Factor at the beginning of each Fiscal Year. Vehicle volumes increasing from one category to the next would subject the toll rates to increase; the categories for the express lanes are roughly defined as follows:

- Category A 0 to 800 vehicles
- Category B 801 to 1600 vehicles
- Category C 1601 to 2400 vehicles
- Category D 2401 to 2800 vehicles
- Category E 2801 to 3000 vehicles

Toll rates will be adopted for each category reflecting the time savings value to the driver as traffic moves into the next level of congestion.

All tolls shall be rounded up or down to the nearest 5-cent increment.

Discounts

Vehicles with three or more persons (HOV3+), motorcycles, disabled plates and disabled veteran plates are permitted to ride free in the 405 Express Lanes during all hours. Inherently low emission vehicles (ILEVs) are permitted to ride free or at a discount in the 405 Express Lanes during all hours. Existing state law related to ILEVs travelling in high occupancy vehicle and high occupancy toll lanes expires January 1, 2019. It is unknown whether this legislation will be renewed or changed. OCTA's 405 Express Lanes toll policy will comply with state law as it evolves. However, consistent with the terms and conditions agreed to with the California Department of Transportation (April 16, 2015), OCTA will seek authorization to cap the number of ILEVs at a rate sufficient to meet toll policy goals.

For the first 3-1/2 years after opening, vehicles with two persons (HOV2) will ride free in the 405 Express Lanes during Non-Peak hours. From that point on, HOV2 will pay the full toll during all hours. (Note: Should the State of California policy related to minimum occupancy requirements for carpool lanes change from HOV2+ to HOV3+ within the first 3-1/2 years after opening of the 405 Express Lanes, HOV2 would pay the full 405 Express Lanes toll during all hours.)

Financing Requirements

OCTA shall charge and collect tolls that generate enough revenue to maintain the Debt Service Coverage Ratio at a level sufficient to qualify for external financing. OCTA recognizes that it must maintain a strong debt service position in order to satisfy the existing bond covenants.

Holiday Toll Schedules

Holiday toll schedules shall apply and will be developed as opening day nears. Holiday toll schedules shall be adjusted by the Inflation Factor at the beginning of each fiscal year in a similar fashion as with Non-Peak hours.

Exhibit I Definitions

Cash Available for Debt Service – for any Period, the excess, if any, computed on a cash basis, of:

(1) the amount of 405 Express Lanes cash receipts during such Period from whatever source, including, without limitation, toll receipts, transponder revenues, amounts paid to OCTA under the Facility Agreements, and investment earnings, *excluding*:

- proceeds of insurance,
- proceeds of the debt service letter of credit or other amounts held in or disbursed from the payment account, the debt service reserve account, the coverage account and the major maintenance reserve account, and
- the proceeds of any Additional Senior Bonds or Subordinated Bonds, *over*

(2) All Operating and Maintenance Costs incurred during such Period and not deducted in the computation of Cash Available for Debt Service in a prior Period. In computing Operating and Maintenance Costs for any Period, an appropriate prorating will be made for expenditures such as insurance premiums and taxes that would be prorated if the computation were to be made in accordance with GAAP.

Consistently – Any six weeks of twelve consecutive weeks, excluding any week that includes a Holiday or major traffic pattern anomaly caused by an accident or incident.

Debt Service – for any Period, all payments of principal, interest, premiums (if any), fees and other amounts made (including by way of prepayment) or required to be made by OCTA during such Period under the Bond Documents (debt service payments related to OCTA's internal subordinated debt borrowings are to be excluded from these calculations). In computing Debt Service for any Period prior to the issuance of the new bonds, OCTA will give pro forma effect to the transactions contemplated by the Bond Documents and the use of proceeds of the new bonds. In computing Debt Service for any prospective Period, OCTA will estimate in good faith such payments on the basis of reasonable assumptions. Such assumptions will include the absence of any waivers of or amendments to any agreements and the absence of any optional or extraordinary mandatory redemption of the bonds.

Debt Service Coverage Ratio – for any Period, the ratio of Cash Available for Debt Service for such Period to Debt Service for such Period.

Fiscal Year – July 1 to June 30

Holiday – Any of the following holidays that occur or are recognized any day between Monday through Friday: New Year’s Day, Memorial Day, 4th of July, Labor Day, Thanksgiving and Christmas.

Inflation Factor – The inflation factor shall be the same as reflected in the 405 Express Lanes Operating Agreement effective at the time.

Maximum Optimal Capacity – 3,400 vehicles per hour, per day, per direction in the 405 Express Lanes facility

Non-Peak – Hourly period that is not a Peak hour.

Operating and Maintenance Costs – all reasonable and necessary expenses of administering, managing, maintaining and operating the 405 Express Lanes and in accordance with the Bond Documents and the Facility Agreements.

Period – the most recent twelve complete months.

Peak – Hourly period, per day, and per direction with traffic volume use which meets or exceeds the Trigger Point.

Trigger Point – 92 percent or more of Maximum Optimal Capacity (3,128 or more vehicles per hour, per day, and per direction).

Week – 12:00 a.m. Sunday to 11:59 p.m. the following Saturday.

Exhibit II Toll Policy Decision Process Congestion Management Pricing in Peak

Definitions / Detail

Monitor hourly, day of week and directional traffic for last 12 consecutive weeks (exclude days/hours with holidays, major incidents, and accidents)

Flag hours when traffic volume is 3,128 or more vehicles per hour, per day, per direction. Determine if this occurs six or more times in the 12-week period.

Average the traffic volume for the flagged hours.

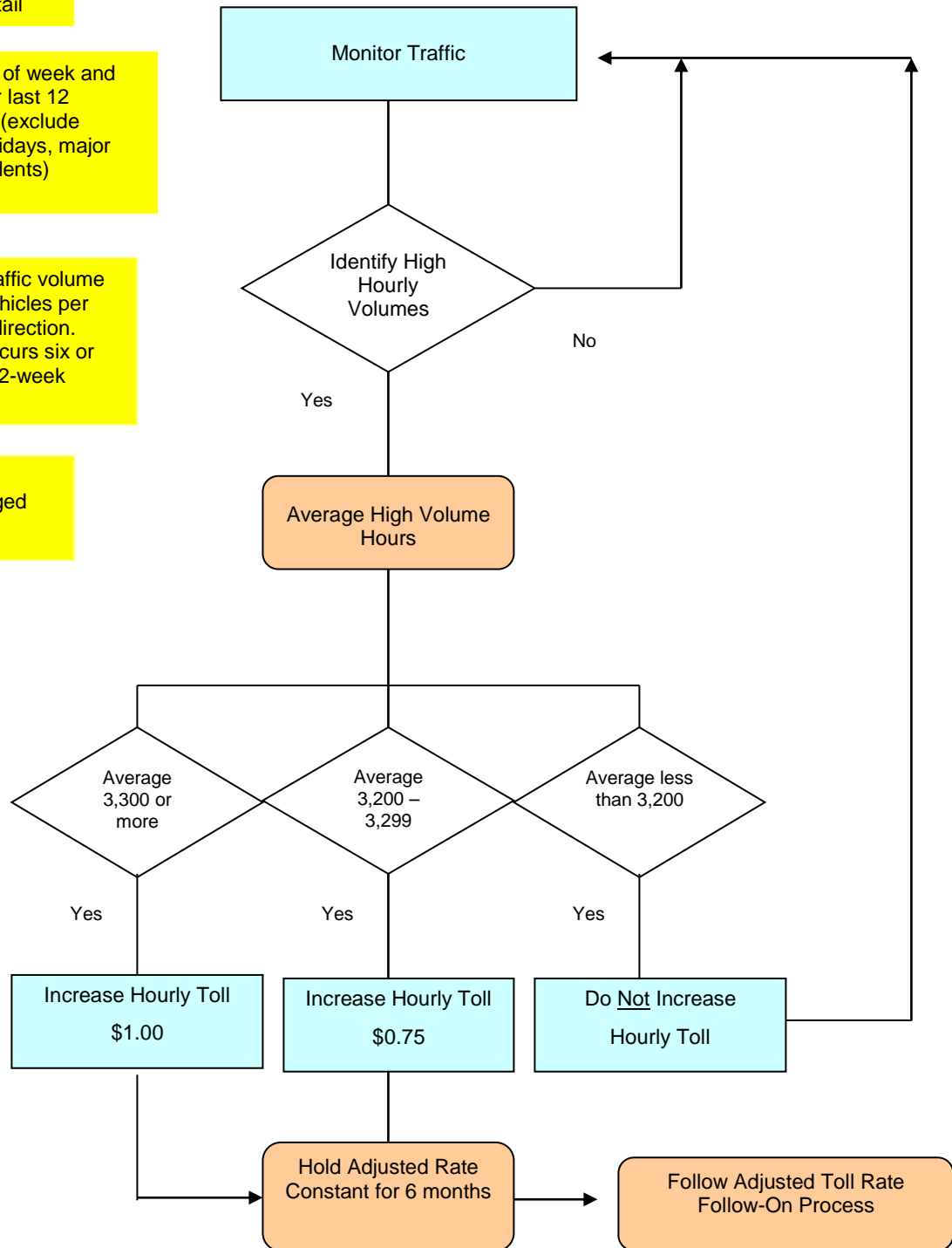


Exhibit III Adjusted Toll Rate Follow-On Process (Peak Adjusted Rates Only)

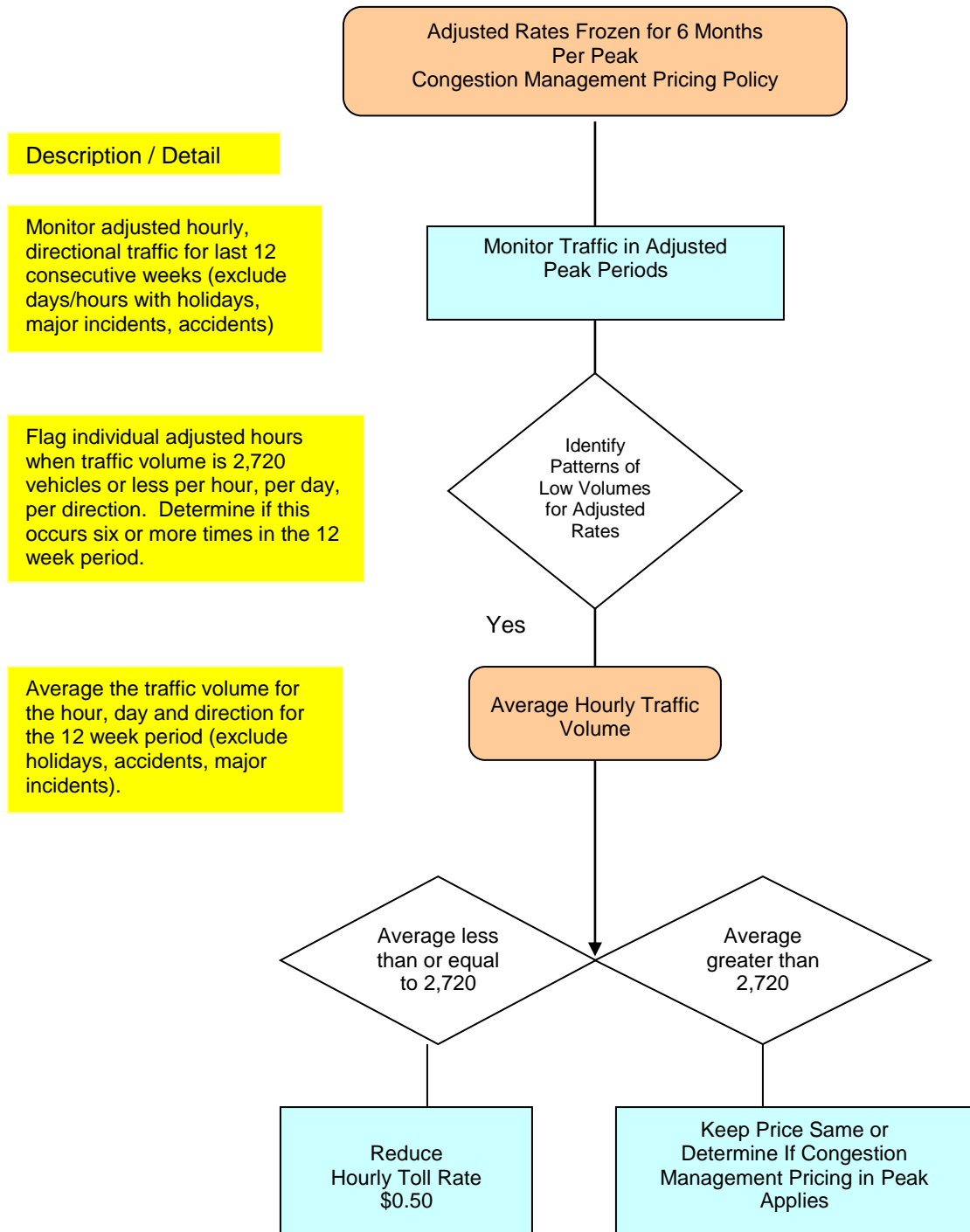
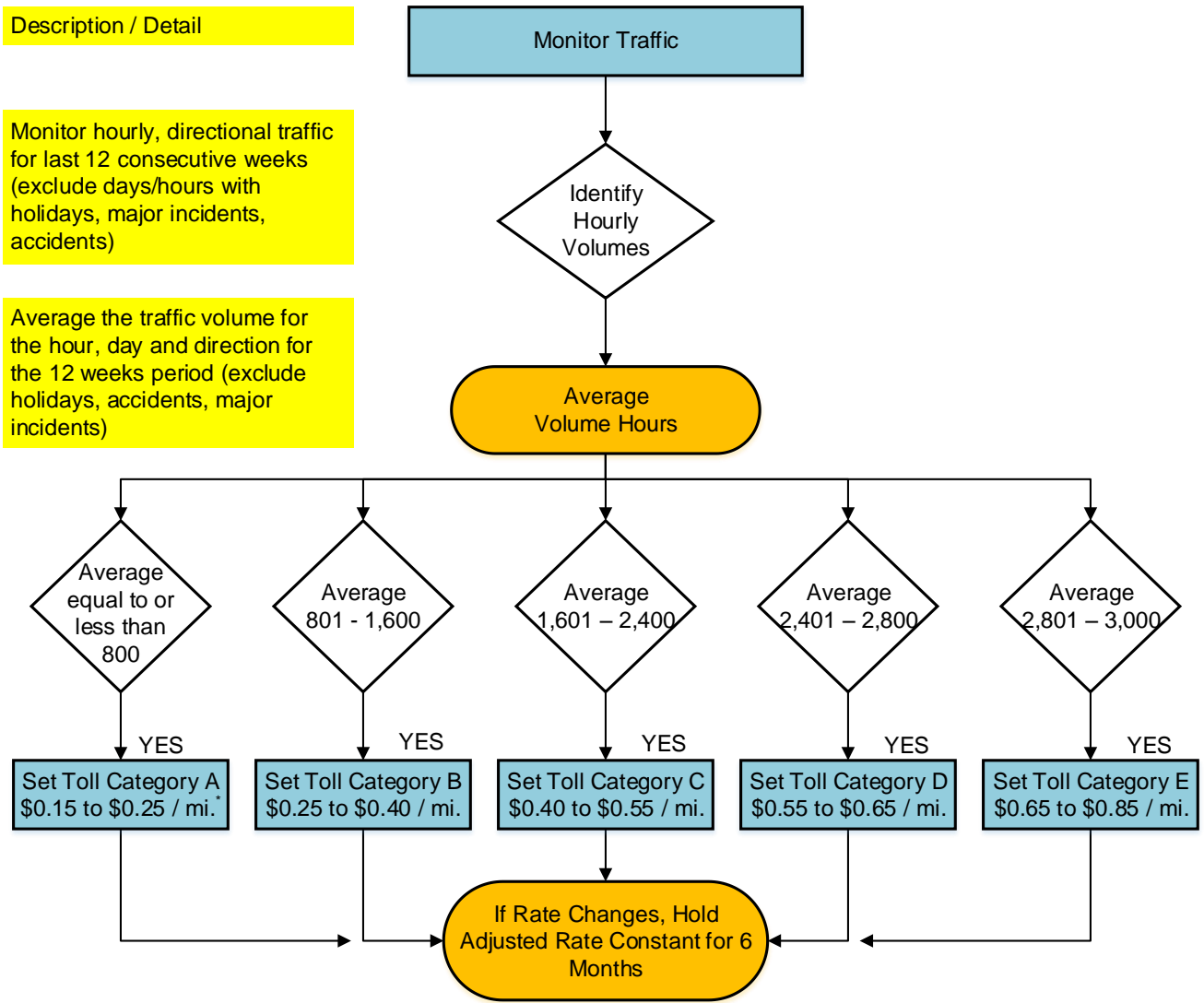


Exhibit IV Toll Policy Decision Process Non-Peak Hours



Description / Detail

Monitor hourly, directional traffic for last 12 consecutive weeks (exclude days/hours with holidays, major incidents, accidents)

Average the traffic volume for the hour, day and direction for the 12 weeks period (exclude holidays, accidents, major incidents)

* All toll pricing ranges are in costs per mile.

Exhibit V
405 Express Lanes Toll Schedules

Toll schedules will be developed as 405 Express Lanes opening day nears. This includes both regular and holiday toll schedules.



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Attachment E

**Interstate 405 Improvement Project
Preliminary Finance Plan
May 2016**

Summary

The I-405 Improvement Project (405 Project) will add one general purpose (GP) lane to the I-405 from Euclid Street north to the I-605 interchange at the Los Angeles County line in each direction and add a tolled express lane in each direction from the SR-73 in Costa Mesa north to the SR-22 that will combine with the existing HOV lane to create two Express Lanes in each direction in the I-405 median. The new tolled express lanes will be combined with the existing HOV lanes to create the 405 Express Lanes (two 405 Express Lanes in each direction) in the I-405 median from SR-73 to I-605. The 405 Express Lanes will include single lanes connecting to/from the SR-73 to the I-405 at the southern end of the 405 Express Lanes and to/from the I-605 and the SR-22 at the northern end of the 405 Express Lanes. The 405 Project will provide two additional intermediate access points along the approximately 14-mile 405 Express Lanes.

The 405 Project will be funded with local sales tax Measure M2 (M2) funding, state and federal funding, and the proceeds of non-recourse toll revenue-backed obligations using a direct Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and/or toll revenue bonds. The 405 Project's capital cost estimate is \$1.9 billion with 75 percent being attributed to the GP lanes and 25 percent to the 405 Express Lanes. The table below shows the sources of the funds for the 405 Project:

<u>Sources of Funds</u>	<u>Amount</u>
M2 Pay As You Go Funds/Bonds	\$ 1,145,352,000
Federal Funds	45,648,000
State Funds	82,000,000
<u>TIFIA Loan</u>	<u>627,000,000</u>
Total Sources	\$ 1,900,000,000

For an estimated project cost amount of \$1.9 billion, the TIFIA loan request will total approximately \$627 million, equal to 33 percent of the eligible project costs. The pledged source of revenues for the TIFIA loan is 405 Express Lanes revenues. M2 funds would not be pledged to repay the amounts borrowed under the TIFIA loan. This approach has been modeled and is financially sustainable based upon the assumptions included to date. If the full amount of a TIFIA loan is not received, OCTA could issue toll road revenue bonds, secured by toll road revenues, to assist with the funding of the project.

Assumptions

The following assumptions are included in the financial models for the 405 Project:

- Capital cost estimate is \$1.9 billion with 75 percent being attributed to the GP lanes and 25 percent to the 405 Express Lanes,
- Five and half year construction period,
- Opening date for 405 Express Lanes is January 1, 2023,
- Stantec's gross potential toll revenues projections (March 2016) for the 405 Express Lanes is escalated by two percent per year,
- Parsons and HNTB projections (April 2016) for the 405 Express Lanes for operating and maintenance, non-toll revenues, and leakage,
- TIFIA loan request equal to 33 percent of the eligible project expenses,
- 405 Express Lanes financing transaction structured with the following minimum debt service coverage ratios – 1.30 times for TIFIA loan and 1.75 times for toll road revenue bonds,
- Up to \$1.242 million available in M2 funds for the GP lanes,
- Interest rates from March 30, 2016 (30-Treasury Bond at 2.60 percent) plus 75 basis points, and
- BBB- credit ratings for the 405 Express Lanes.

Tolling Options

Traffic and revenue projections were prepared for the following Options:

- A: HOV2+ free all day
- B: HOV2+ free non-peak and HOV3+ 50 percent during peak
- B1: HOV2+ free non-peak and HOV3+ free all day
- C: HOV3+ 50 percent during peak
- C1: HOV3+ free all day
- D: Greater revenue option for rating agencies (currently being prepared)
- B/C: Option B for the first three and a half years and Option C thereafter
- B1/C1: Option B1 for the first three and a half years and Option C1 thereafter

405 Project

The preliminary finance plan for the 405 Project includes five sources of funds:

- M2 sales tax pay as you go funds - the M2 Ordinance approved by Orange County voters states that "pay as you go" financing is the preferred method of financing transportation improvements and operations. However, OCTA may use bond financing as an alternative method if the scope of planned expenditures makes "pay as you go" financing unfeasible. Given, the cost of the I-405 general-purpose lanes, and the amount of M2 revenues received to date and projected to be received by FY 2023, OCTA will have to

issue M2 sales tax revenue bonds over the next several years to fund the GP lanes project based on current estimates. Pay as you go funds will be used for the first few years of construction.

- OCTA will contribute proceeds from the periodic issuance (currently expected in FY 2019 and FY 2021) of M2 sales tax revenue bonds.
- \$82 million contribution in state funds from Caltrans.
- \$45.6 million of federal grants - the federal grants include \$35 million from Surface Transportation Program (renamed under the FAST Act to Surface Transportation Block Grant), \$1.13 million from Interstate Maintenance Discretionary (IMD) Program, \$8.528 million from High Priority Projects earmarks from TEA-21 and SAFETEA-LU, and \$990,000 from 2006 appropriations bill earmarks.
- OCTA will request to enter into a \$627 million TIFIA loan which will be based on 33% of eligible project costs secured by future pledged 405 Express Lanes net toll revenues (OCTA submitted a Letter of Interest to the United States Department of Transportation (USDOT) in February 2016). TIFIA is a federal credit program for eligible surface transportation projects of regional or national significance under which the USDOT may provide credit assistance. A TIFIA loan provides many benefits and could substantially reduce the costs associated with obtaining financing for the 405 Project

The sources of funds will be used on the following expenditures:

Design-Build Costs	\$ 1,300,000,000
Right of Way, Utilities, Support, and Other Costs	500,000,000
<u>Project Contingency</u>	<u>100,000,000</u>
Total Uses	\$ 1,900,000,000

The Board of Directors approved a new forecasting approach for M2 sales tax collections in March 2016. This new approach estimated that approximately \$1.24 billion would be available for the general-purpose lanes project for the I-405, Project K. Under this preliminary financing plan, the full \$1.24 billion would not be required. The ability to borrow 33 percent of the eligible project costs for the TIFIA program would lessen the requirement from the M2 program.

Exhibit 1 provides an annual projection of the sources and uses for the 405 Project. The sources include a combined line item for M2 sales tax pay as you go funds and M2 sales tax revenue bonds. It is estimated that the first debt issuance will not be required until FY 2019. M2 pay as you go funds will be used over the next several years for project expenditures. OCTA has a long standing history of successfully issuing and repaying its debt obligations for large capital projects and delivering capital improvement projects. OCTA has issued and repaid over \$1.0 billion of its Measure M (M1) Sales Tax Revenue Bonds. OCTA currently has \$332.7 million in M2 Sales Tax Revenue Bonds outstanding, which are rated Aa1, AA+, and AA+ by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

405 Express Lanes

The 405 Express Lanes will be utilizing a congestion management pricing system for operation of the lanes. To determine the associated traffic and revenue projections, OCTA hired Stantec to complete an Investment Grade Traffic and Revenue Study. Based upon input from OCTA, Stantec modeled Options A, B, B1 and C. In addition to these Options, C1 and a hybrid of B1 and C1 were also modeled.

In addition to Stantec, OCTA is also using Parsons/HNTB to forecast non-toll revenues (account and violation fees), operations and maintenance costs, violations and leakage calculations (the dollar value of trips evading a toll including pursuable violations, non-pursuable violations and HOV status mis-declaration). These projections from Stantec and Parson/HNTB were used to calculate net revenues available for debt service.

Net revenues available for debt are defined as gross potential toll revenues (transactions charged at 100 percent of the prevailing toll rate) minus leakage plus non-toll revenues minus operating and maintenance costs. Once net revenues available for debt service were projected, OCTA's financial advisor Sperry Capital determined which Options could potentially achieve investment grade ratings and be financially sustainable using two separate financing alternatives. Sperry Capital modeled scenarios solely with TIFIA loan proceeds and other scenarios solely with toll road revenue bonds.

Using a financial model that incorporated interest rate assumptions from March 30, 2016 (30-Treasury Bond at 2.60 percent) plus a 75 basis point buffer, Sperry Capital determined that Options C, C1, B/C, and B1/C1 could achieve investment grade ratings.

The cash flow for Option B1/C1, which is the staff recommended Option, is attached as Exhibit 2. This Exhibit shows the financing under a TIFIA loan borrowing of \$627 million. Debt service coverage ratios are provided in the far right column and show strong coverage ratios throughout the term of the debt with the exception of the first year.

If OCTA does not receive the requested TIFIA loan amount, OCTA could issue 405 Express Lanes BBB-rated tax-exempt senior lien toll revenue bonds secured by net toll revenues. This pivot point could be made up to three to four months prior to the anticipated financial closing date.

Orange County Transportation Authority
2017 TIFIA Loan
Base Case
Option B1/C1

Period	Period Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ³	Transfer from DSRA ⁴	O&M ⁵	TIFIA Servicing Fee	Net Revenues Available for Debt Service	Net Debt Service	Debt Service Coverage Ratio
1	6/30/2017	-	-	-	-	-	-	-	-	-	-
2	6/30/2018	-	-	-	-	-	-	-	-	-	-
3	6/30/2019	-	-	-	-	-	-	-	-	-	-
4	6/30/2020	-	-	-	-	-	-	-	-	-	-
5	6/30/2021	-	-	-	-	-	-	-	-	-	-
6	6/30/2022	-	-	-	-	-	-	-	-	-	-
7	6/30/2023	14,228,046	(4,036,581)	10,191,465	3,096,588	-	(8,819,838)	(13,500)	4,454,715	(12,605,970)	1.11x
8	6/30/2024	36,750,292	(8,836,503)	27,913,789	9,169,232	-	(23,110,378)	(14,000)	13,958,643	(25,211,940)	1.35x
9	6/30/2025	56,952,638	(8,811,739)	48,140,900	9,202,302	452,029	(23,829,570)	(14,000)	33,951,661	(25,211,940)	2.02x
10	6/30/2026	74,532,830	(8,411,678)	66,121,152	8,683,048	452,029	(24,374,545)	(14,500)	50,867,184	(25,211,940)	2.33x
11	6/30/2027	81,554,289	(6,601,929)	74,952,359	7,584,549	452,029	(24,112,259)	(14,500)	58,862,179	(25,211,940)	2.29x
12	6/30/2028	89,238,160	(7,271,984)	81,966,175	8,299,149	452,029	(24,942,630)	(15,000)	65,759,724	(29,704,125)	2.46x
13	6/30/2029	97,344,546	(7,986,451)	89,358,095	9,053,043	452,029	(25,628,552)	(15,000)	73,219,615	(30,728,670)	2.64x
14	6/30/2030	105,894,267	(8,747,859)	97,146,408	9,848,167	452,029	(26,333,337)	(15,500)	81,097,766	(31,787,411)	2.64x
15	6/30/2031	109,434,358	(9,103,950)	100,330,408	10,177,395	452,029	(27,057,504)	(16,000)	83,886,328	(32,880,823)	2.64x
16	6/30/2032	113,091,898	(9,475,621)	103,616,278	10,517,547	452,029	(27,801,586)	(16,000)	86,768,268	(33,639,812)	2.93x
17	6/30/2033	116,873,390	(9,864,001)	107,009,389	10,869,225	452,029	(28,566,129)	(16,500)	89,748,014	(34,371,314)	2.93x
18	6/30/2034	120,779,844	(10,269,420)	110,510,424	11,232,525	452,029	(29,351,698)	(17,000)	92,826,281	(34,369,733)	2.92x
19	6/30/2035	125,415,446	(10,561,744)	114,853,702	11,663,636	452,029	(30,158,869)	(17,000)	96,793,498	(34,369,733)	2.92x
20	6/30/2036	129,806,213	(10,796,895)	119,009,318	12,071,978	452,029	(30,988,238)	(17,500)	100,527,586	(35,268,900)	2.94x
21	6/30/2037	133,654,580	(11,095,520)	122,559,061	12,429,876	452,029	(31,840,415)	(18,000)	103,582,551	(36,191,491)	2.95x
22	6/30/2038	137,615,999	(11,402,423)	126,213,576	12,798,288	452,029	(32,716,026)	(18,000)	106,729,867	(37,138,245)	2.96x
23	6/30/2039	141,695,279	(11,717,925)	129,977,354	13,177,661	452,029	(33,615,717)	(18,500)	109,972,828	(38,108,819)	2.97x
24	6/30/2040	145,895,810	(12,042,174)	133,853,636	13,568,310	452,029	(34,540,149)	(19,000)	113,314,826	(39,047,728)	2.99x
25	6/30/2041	150,221,071	(12,375,757)	137,845,314	13,970,560	452,029	(35,490,003)	(19,500)	116,758,399	(40,037,976)	3.00x
26	6/30/2042	154,672,932	(12,718,493)	141,954,439	14,384,583	452,029	(36,465,978)	(20,000)	120,305,572	(41,119,437)	3.01x
27	6/30/2043	159,258,448	(13,070,997)	146,187,452	14,811,036	452,029	(37,468,793)	(20,500)	123,961,724	(42,230,217)	3.02x
28	6/30/2044	163,979,723	(13,433,353)	150,546,370	15,250,114	452,029	(38,499,185)	(21,000)	127,728,829	(43,371,314)	3.03x
29	6/30/2045	168,840,636	(13,805,832)	155,034,804	15,702,179	452,029	(39,557,912)	(21,500)	131,610,100	(44,541,626)	3.04x
30	6/30/2046	173,845,174	(14,188,812)	159,656,362	16,167,601	452,029	(40,645,755)	(21,500)	135,608,738	(45,744,901)	3.05x
31	6/30/2047	178,999,319	(14,582,533)	164,416,786	16,646,937	452,029	(41,763,513)	(22,000)	139,730,739	(46,979,742)	3.06x
32	6/30/2048	184,305,469	(14,987,341)	169,318,128	17,140,409	452,029	(42,912,010)	(22,500)	143,976,556	(48,247,633)	3.07x
33	6/30/2049	189,769,912	(15,403,702)	174,366,209	17,648,602	452,029	(44,092,090)	(23,000)	148,352,250	(49,549,895)	3.08x
34	6/30/2050	195,395,209	(15,831,518)	179,563,691	18,171,754	452,029	(45,304,622)	(23,500)	152,859,852	(50,886,700)	3.10x
35	6/30/2051	201,185,929	(16,271,251)	184,914,678	18,710,291	452,029	(46,550,500)	(24,000)	157,502,999	(52,260,055)	3.11x
36	6/30/2052	207,150,927	(16,723,676)	190,427,251	19,265,036	452,029	(47,830,638)	(24,500)	162,289,678	(53,669,802)	3.12x
37	6/30/2053	213,291,029	(17,188,649)	196,102,380	19,836,066	452,029	(49,145,981)	(25,000)	167,219,994	(55,117,618)	3.13x
38	6/30/2054	219,613,357	(17,666,849)	201,946,508	20,424,042	452,029	(50,497,495)	(25,500)	172,300,084	(56,603,998)	3.14x
39	6/30/2055	226,123,134	(18,158,358)	207,964,776	21,029,451	452,029	(51,886,176)	(26,000)	177,534,580	(58,131,241)	3.15x
40	6/30/2056	232,827,979	(18,664,012)	214,163,967	21,653,002	452,029	(53,313,046)	(26,500)	182,929,952	(59,699,445)	3.16x
41	6/30/2057	239,728,946	(19,183,621)	220,545,326	22,294,792	452,029	(54,779,155)	(27,000)	188,486,492	(61,311,330)	3.17x
42	6/30/2058	246,836,253	(19,718,161)	227,118,092	22,955,772	452,029	(56,285,582)	(27,000)	194,213,311	(62,969,815)	3.17x
TOTAL		5,336,803,331	(451,007,310)	4,885,796,021	509,504,745	15,368,993	(1,300,275,876)	(702,500)	4,109,691,384	(1,407,058,056)	

Notes

- 1 Per Stantec April 28, 2016, escalated at 2% from \$2015.
- 2 Per Parsons/HNTB on April 29, 2016
- 3 Per Parsons/HNTB on April 29, 2016 for FY2023-2026, afterwards 9.3% of GPTR
- 4 Represents interest earnings at UST
- 5 Per Parsons/HNTB on April 29, 2016 for FY2023-2028, afterwards escalated at 2.75% annually



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

PowerPoint



Interstate 405 Improvement Project

Initial Toll Policy and Preliminary Finance Plan

Background

- I-405 carries 257,000 – 370,000 Average Daily Traffic*
- Regular and high-occupancy vehicle (HOV) lanes congested in peak hours
- Traffic growth of about 30% expected by 2040
- Project more than 11 years in development
- Final Environmental Impact Report approved March 2015
 - Adds one General Purpose lane each direction
 - Fulfills promise to voters by delivering Measure M Project K
 - Adds one Express Lane each direction**
 - Paid for with user fees / tolls
 - Reconstructs 18 bridges

Description	Direction	New lanes
General Purpose	Northbound	1
General Purpose	Southbound	1
Express Lane	Northbound	1
Express Lane	Southbound	1
<hr/>		
Total New Lanes	Both directions	4

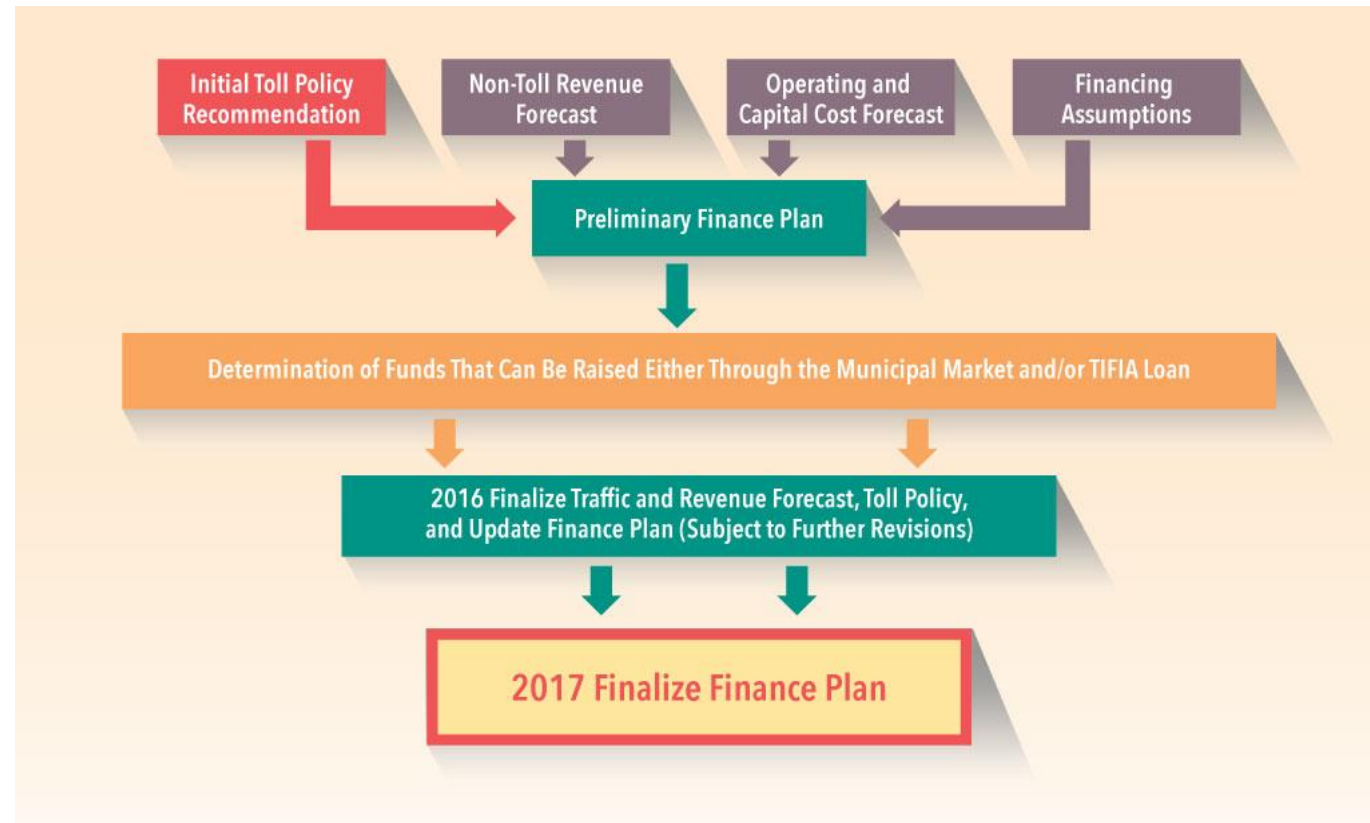
* Represents traffic in 2009 - From Final Environmental Impact Report

** The one new Express Lane is combined with the existing high-occupancy vehicle lane to form a two-lane each direction Express Lanes facility.

Getting to Finance Plan

Projections / estimates:

- ✓ Traffic and Revenue Study
- ✓ Operations & Maintenance Costs
- ✓ Non-Toll Revenue
- ✓ Violations
- ✓ Leakage
- ✓ Net Revenue Available for Debt Service
- ✓ Project Cost*



* Current estimate based on Federal Highway Administration Cost Estimate Review (April 28, 2016) plus contingency for unassigned risk. Project cost is not finalized until the design-build contract is awarded.

Board / Stakeholder Involvement –Toll Policy and Finance Plan Development*

- 3 Board of Director presentations
- 6 Board of Director Committee meetings
 - TIFIA Letter of Interest / I-405 Financing Updates
 - Assumptions and Options for Toll Policy Development
 - Traffic & Revenue Study Workshop
 - Operations/Maintenance/Non-Toll Revenue/Leakage Assumptions
 - Initial Financing Options
- 3 Federal Highway Administration/Caltrans Partners meetings
- 1 Caltrans toll policy meeting
- 2 Corridor City Technical Steering Committee meetings/workshops
- Digital communications to public stakeholder database

Approved by Board October 12, 2015

Description	Action
Toll Policy Goals	Approved
Pricing Methodology	Time of Day, One Hour Static Variable
Peak Toll Adjustments	OCTA 91 Express Lanes (91 EL)
Non-Peak Toll Adjustments	Riverside County Transportation Commission 91 EL
Hours of Operation	24/7
Access Points	Intermediate Access
Non-Toll Revenue: Account Fees, Violations	OCTA 91 EL
Enforcement Approach	Manual and Automated
Prohibited Vehicles, Discounts, Exemptions	Large trucks (over 10,000 pounds) and towed trailers
Toll Collection	Title 21-Compliant Transponder (monitor technology improvements)
Toll Policy Options for Analysis	Four*

* Plus two sensitivity analyses were modeled.

Adopted Toll Policy Goals and Options

- Provide Express Lanes customers with a safe, reliable, predictable commute.
- Optimize throughput at free flow speeds.
- Increase average vehicle occupancy.
- Balance capacity and demand to serve customers who pay tolls as well as people who rideshare or use transit.
- Generate sufficient revenue to sustain the financial viability of the 405 Express Lanes.
- Ensure all covenants in the financing documents are met.
- Ensure any potential net excess toll revenues are used for Interstate 405 corridor improvements.*

A	B	B1 (sensitivity analysis)	C	C1 (sensitivity analysis)	D
HOV2+ Free All Day	HOV2+ Free Non-Peak, HOV3+ 50% Peak	HOV2+ Free Non-Peak, HOV3+ Free All Day	HOV3+ 50% Peak	HOV3+ Free All Day	**

* Assumes debt service coverage ratios and reserve requirements are met

**Greater revenues (for rating agencies)

Initial Financing Observations

- Lower TIFIA loan rate provides OCTA greater flexibility*
 - Minimizes borrowing costs
 - 1.3x debt coverage ratio allows greater flexibility in toll policy
 - Interest starts with each loan disbursement and accretes over time
 - Accreted interest is added to TIFIA loan repayment obligation
 - “Patient” lender provides potential for principal deferral
 - TIFIA has experience / expertise in toll facilities
- Toll revenue bonds provide a secondary financing option
 - Option is more expensive and reduces flexibility in toll policy
 - Capitalized interest during construction may exceed \$250 million
 - Capitalized interest cost is added to toll revenue bond issuance amount
 - 1.75x debt coverage ratio required

* TIFIA = Transportation Infrastructure Finance and Innovation Act

Proposal to Better Achieve Goals

Create a B1/C1 “Hybrid” Option

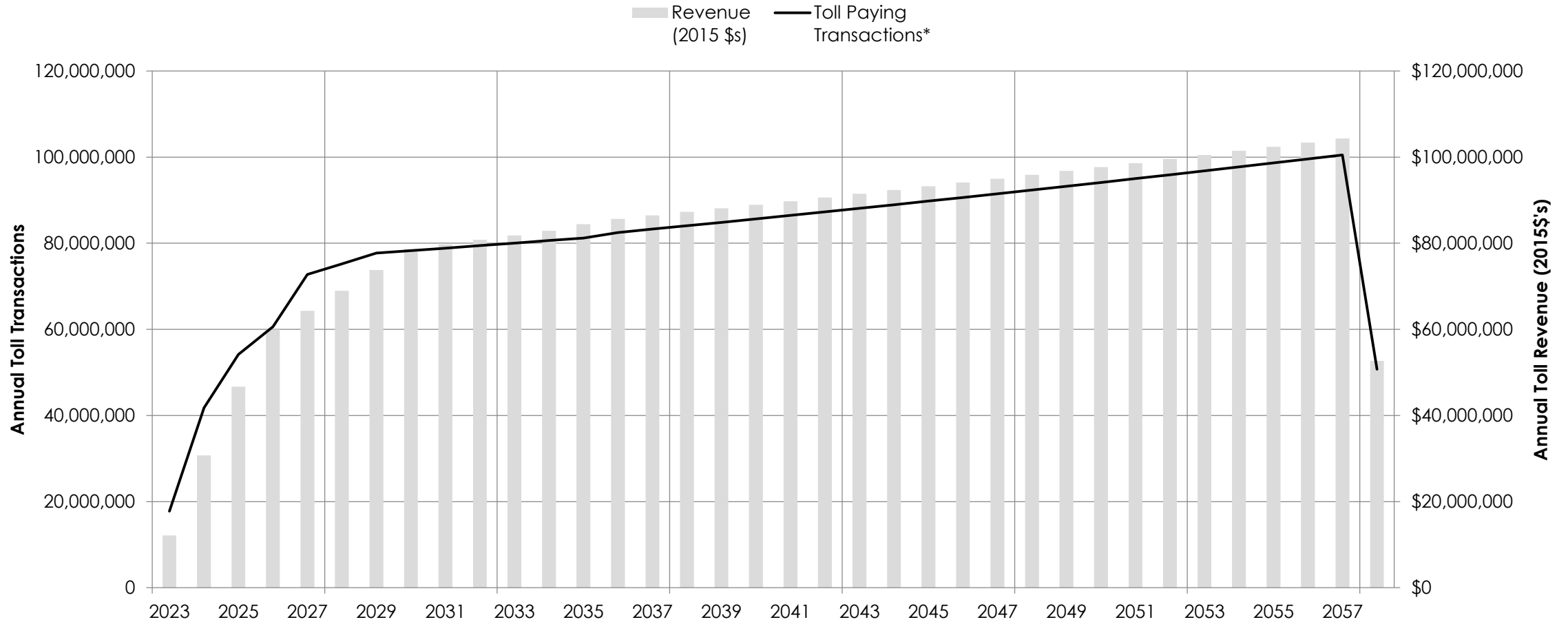
- Use Option B1 for initial 3.5 years – HOV2 free in non-peak*, HOV3+ free all day
- Use Option C1 for balance of financing – HOV3+ free all day**

* If State occupancy requirements for HOV lanes change from HOV2+ to HOV3+ in off-peak hours, the 405 Express Lanes would adopt this policy.

** Option C1 was analyzed to determine how HOV3+ free in peak hours performed.

Hybrid B1/C1- Traffic and Revenue Forecast

OCTA I-405 Express Lanes T&R Forecast



Hybrid B1/C1 – Toll Rates By Segment 2025

2025 TOLL													
Northbound	Dist	AM0	AM1	AM2	AM3	AM4	MD	PM1	PM2	PM3	PM4	PM5	NT
405N NB HOT DC	0.36	\$ 0.14	\$ 0.23	\$ 0.50	\$ 0.39	\$ 0.29	\$ 0.21	\$ 1.70	\$ 0.72	\$ 1.88	\$ 1.88	\$ 0.20	\$ 0.06
605 NB HOT DC	1.43	\$ 0.21	\$ 0.36	\$ 0.50	\$ 0.46	\$ 0.50	\$ 0.48	\$ 0.68	\$ 0.61	\$ 0.71	\$ 0.78	\$ 0.43	\$ 0.23
22-605	2.02	\$ 0.50	\$ 0.87	\$ 1.01	\$ 1.01	\$ 1.01	\$ 0.85	\$ 1.15	\$ 1.11	\$ 1.21	\$ 1.25	\$ 0.81	\$ 0.34
22 NB HOT DC	0.65	\$ 0.13	\$ 0.19	\$ 0.16	\$ 0.19	\$ 0.18	\$ 0.14	\$ 0.16	\$ 0.14	\$ 0.26	\$ 0.26	\$ 0.16	\$ 0.10
Bolsa-22	3.14	\$ 0.64	\$ 0.94	\$ 1.26	\$ 1.26	\$ 1.32	\$ 1.10	\$ 1.60	\$ 1.57	\$ 1.32	\$ 1.41	\$ 1.04	\$ 0.50
Magnolia-Bolsa	3.11	\$ 0.59	\$ 0.78	\$ 1.15	\$ 1.09	\$ 1.18	\$ 1.03	\$ 1.71	\$ 1.56	\$ 1.56	\$ 1.56	\$ 1.31	\$ 0.50
73-Magnolia	4.24	\$ 0.81	\$ 1.06	\$ 1.70	\$ 1.70	\$ 1.82	\$ 2.12	\$ 3.05	\$ 2.46	\$ 2.30	\$ 3.05	\$ 2.97	\$ 0.68
73 NB HOT DC	0.74	\$ 0.11	\$ 0.19	\$ 0.26	\$ 0.30	\$ 0.31	\$ 0.31	\$ 1.04	\$ 0.54	\$ 0.52	\$ 0.59	\$ 1.49	\$ 0.11
405S NB HOT DC	0.28	\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.12	\$ 0.12	\$ 0.18	\$ 0.35	\$ 0.17	\$ 0.45	\$ 0.83	\$ 0.25	\$ 0.04
Full Length Toll	13.14	\$ 2.74	\$ 3.96	\$ 5.72	\$ 5.56	\$ 5.74	\$ 5.49	\$ 9.56	\$ 7.58	\$ 8.72	\$ 9.99	\$ 6.57	\$ 2.13
Southbound	Dist	AM0	AM1	AM2	AM3	AM4	MD	PM1	PM2	PM3	PM4	PM5	NT
405S SB HOT DC	0.36	\$ 0.06	\$ 0.14	\$ 0.21	\$ 0.36	\$ 0.25	\$ 0.21	\$ 0.26	\$ 0.25	\$ 0.36	\$ 0.27	\$ 0.16	\$ 0.06
605 SB HOT DC	1.43	\$ 0.21	\$ 0.61	\$ 0.57	\$ 0.64	\$ 0.57	\$ 0.54	\$ 0.36	\$ 0.43	\$ 0.50	\$ 0.54	\$ 0.36	\$ 0.23
605-22	2.02	\$ 0.39	\$ 0.81	\$ 0.91	\$ 1.19	\$ 1.05	\$ 0.91	\$ 0.91	\$ 0.93	\$ 1.01	\$ 0.97	\$ 0.71	\$ 0.34
22 SB HOT DC	0.65	\$ 0.10	\$ 0.10	\$ 0.19	\$ 0.12	\$ 0.10	\$ 0.14	\$ 0.19	\$ 0.16	\$ 0.18	\$ 0.13	\$ 0.16	\$ 0.10
22-Bolsa	3.14	\$ 0.57	\$ 1.16	\$ 1.10	\$ 1.66	\$ 1.63	\$ 1.22	\$ 1.10	\$ 1.26	\$ 1.26	\$ 1.41	\$ 0.94	\$ 0.50
Bolsa-Magnolia	3.11	\$ 0.53	\$ 1.49	\$ 1.15	\$ 1.71	\$ 1.77	\$ 1.21	\$ 1.00	\$ 1.34	\$ 1.18	\$ 1.34	\$ 0.78	\$ 0.50
Magnolia-73	4.24	\$ 0.67	\$ 1.91	\$ 2.46	\$ 2.67	\$ 2.42	\$ 1.48	\$ 1.36	\$ 1.70	\$ 1.48	\$ 1.48	\$ 1.05	\$ 0.68
73 SB HOT DC	0.74	\$ 0.11	\$ 0.37	\$ 0.48	\$ 0.52	\$ 0.46	\$ 0.24	\$ 0.26	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.19	\$ 0.11
405S SB HOT DC	0.28	\$ 0.06	\$ 0.14	\$ 0.16	\$ 0.21	\$ 0.18	\$ 0.12	\$ 0.08	\$ 0.10	\$ 0.10	\$ 0.11	\$ 0.07	\$ 0.04
Full Length Toll	13.14	\$ 2.27	\$ 5.65	\$ 5.98	\$ 7.80	\$ 7.31	\$ 5.17	\$ 4.70	\$ 5.57	\$ 5.39	\$ 5.58	\$ 3.71	\$ 2.13

AM0	5-6am	PM1	3-4pm
AM1	6-7am	PM2	4-5pm
AM2	7-8am	PM3	5-6pm
AM3	8-9am	PM4	6-7pm
AM4	9-10am	PM5	7-8pm
MD	10am-3pm	NT	8pm-5am

Hybrid B1/C1 – Toll Rates By Segment 2035

2035 TOLL													
Northbound	Dist	AM0	AM1	AM2	AM3	AM4	MD	PM1	PM2	PM3	PM4	PM5	NT
405N NB HOT DC	0.36	\$ 0.14	\$ 0.54	\$ 1.43	\$ 0.90	\$ 0.90	\$ 0.19	\$ 2.69	\$ 1.79	\$ 2.87	\$ 2.60	\$ 0.32	\$ 0.06
605 NB HOT DC	1.43	\$ 0.23	\$ 0.47	\$ 0.66	\$ 0.64	\$ 0.64	\$ 0.47	\$ 0.74	\$ 0.64	\$ 0.71	\$ 0.78	\$ 0.44	\$ 0.21
22-605	2.02	\$ 0.52	\$ 0.97	\$ 1.13	\$ 1.07	\$ 1.05	\$ 0.87	\$ 1.13	\$ 1.17	\$ 1.13	\$ 1.21	\$ 0.85	\$ 0.30
22 NB HOT DC	0.65	\$ 0.16	\$ 0.24	\$ 0.19	\$ 0.20	\$ 0.21	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.27	\$ 0.24	\$ 0.19	\$ 0.10
Bolsa-22	3.14	\$ 0.63	\$ 1.10	\$ 1.44	\$ 1.35	\$ 1.35	\$ 1.10	\$ 1.51	\$ 1.51	\$ 1.45	\$ 1.41	\$ 1.10	\$ 0.47
Magnolia-Bolsa	3.11	\$ 0.62	\$ 0.93	\$ 1.34	\$ 1.31	\$ 1.18	\$ 1.12	\$ 1.62	\$ 1.49	\$ 1.60	\$ 1.62	\$ 1.24	\$ 0.47
73-Magnolia	4.24	\$ 0.81	\$ 1.19	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91	\$ 2.76	\$ 2.42	\$ 2.72	\$ 2.97	\$ 2.67	\$ 0.64
73 NB HOT DC	0.74	\$ 0.11	\$ 0.20	\$ 0.32	\$ 0.33	\$ 0.36	\$ 0.36	\$ 1.56	\$ 0.74	\$ 0.79	\$ 1.11	\$ 2.04	\$ 0.11
405S NB HOT DC	0.28	\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.12	\$ 0.11	\$ 0.12	\$ 0.49	\$ 0.17	\$ 0.19	\$ 0.69	\$ 0.19	\$ 0.05
Full Length Toll	13.14	\$ 2.77	\$ 4.81	\$ 7.28	\$ 6.56	\$ 6.41	\$ 5.31	\$ 10.18	\$ 8.54	\$ 9.96	\$ 10.50	\$ 6.38	\$ 1.99
Southbound	Dist	AM0	AM1	AM2	AM3	AM4	MD	PM1	PM2	PM3	PM4	PM5	NT
405N SB HOT DC	0.36	\$ 0.07	\$ 0.14	\$ 0.20	\$ 0.72	\$ 0.28	\$ 0.18	\$ 0.27	\$ 0.29	\$ 0.90	\$ 0.36	\$ 0.16	\$ 0.06
605 SB HOT DC	1.43	\$ 0.24	\$ 0.60	\$ 0.47	\$ 0.64	\$ 0.63	\$ 0.54	\$ 0.54	\$ 0.54	\$ 0.54	\$ 0.63	\$ 0.47	\$ 0.21
605-22	2.02	\$ 0.38	\$ 0.85	\$ 0.93	\$ 1.07	\$ 1.07	\$ 0.87	\$ 0.97	\$ 1.03	\$ 1.07	\$ 1.07	\$ 0.81	\$ 0.30
22 SB HOT DC	0.65	\$ 0.08	\$ 0.10	\$ 0.17	\$ 0.12	\$ 0.10	\$ 0.13	\$ 0.17	\$ 0.14	\$ 0.17	\$ 0.13	\$ 0.15	\$ 0.10
22-Bolsa	3.14	\$ 0.53	\$ 1.26	\$ 1.19	\$ 1.60	\$ 1.60	\$ 1.22	\$ 1.29	\$ 1.41	\$ 1.44	\$ 1.35	\$ 1.04	\$ 0.47
Bolsa-Magnolia	3.11	\$ 0.53	\$ 1.68	\$ 1.18	\$ 1.65	\$ 1.87	\$ 1.28	\$ 1.24	\$ 1.49	\$ 1.37	\$ 1.43	\$ 0.93	\$ 0.47
Magnolia-73	4.24	\$ 0.76	\$ 2.21	\$ 2.38	\$ 2.63	\$ 2.50	\$ 1.57	\$ 1.61	\$ 1.82	\$ 1.70	\$ 1.70	\$ 1.19	\$ 0.64
73 SB HOT DC	0.74	\$ 0.11	\$ 0.41	\$ 0.59	\$ 0.67	\$ 0.56	\$ 0.28	\$ 0.30	\$ 0.32	\$ 0.30	\$ 0.30	\$ 0.21	\$ 0.11
405S SB HOT DC	0.28	\$ 0.05	\$ 0.14	\$ 0.14	\$ 0.17	\$ 0.16	\$ 0.10	\$ 0.10	\$ 0.12	\$ 0.11	\$ 0.11	\$ 0.08	\$ 0.05
Full Length Toll	13.14	\$ 2.33	\$ 6.28	\$ 6.02	\$ 7.84	\$ 7.48	\$ 5.22	\$ 5.48	\$ 6.16	\$ 6.58	\$ 6.02	\$ 4.21	\$ 1.99

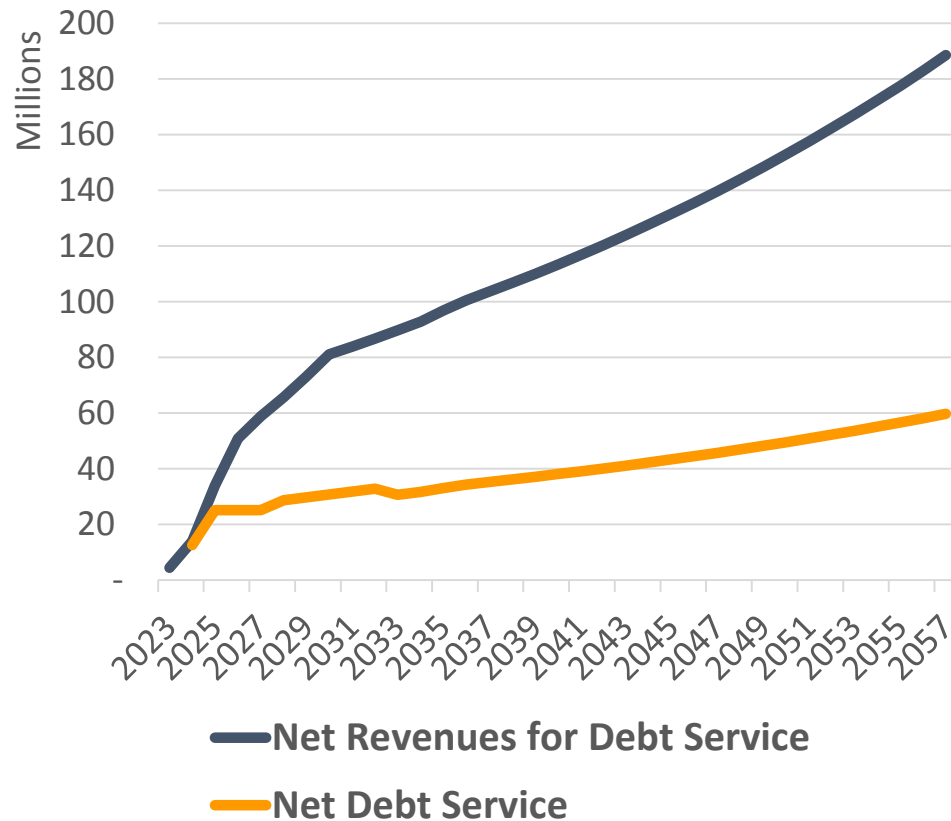
AM0	5-6am	PM1	3-4pm
AM1	6-7am	PM2	4-5pm
AM2	7-8am	PM3	5-6pm
AM3	8-9am	PM4	6-7pm
AM4	9-10am	PM5	7-8pm
MD	10am-3pm	NT	8pm-5am

Hybrid B1/C1- Initial Cash Flow Pro Forma (\$ millions)

COLUMN	A	B	C = A + B	D	E	F = C + D + E	G	H = F + G
Fiscal Year Ending	Gross Potential Toll Revenues ¹	Leakage ²	Net Toll Revenues	Non-Toll Revenues ²	DSRF Earnings ³	Gross Revenues	O&M ²	Net Revenues For Debt Service
2023	14.2	(4.0)	10.2	3.1	0.0	13.3	(8.8)	4.5
2024	36.8	(8.8)	27.9	9.2	0.0	37.1	(23.1)	14.0
2025	57.0	(8.8)	48.1	9.2	0.2	57.5	(23.8)	33.7
2026	74.5	(8.4)	66.1	8.7	0.2	75.0	(24.4)	50.6
2027	81.6	(6.6)	75.0	7.6	0.2	82.7	(24.1)	58.6
2028	89.2	(7.3)	82.0	8.3	0.2	90.4	(24.9)	65.5

1. Per Stantec April 28, 2016, escalated at 2% from \$2015
2. Per Parsons/HNTB on April 29, 2016
3. Represents interest earnings in USTs

Hybrid B1/C1 - TIFIA



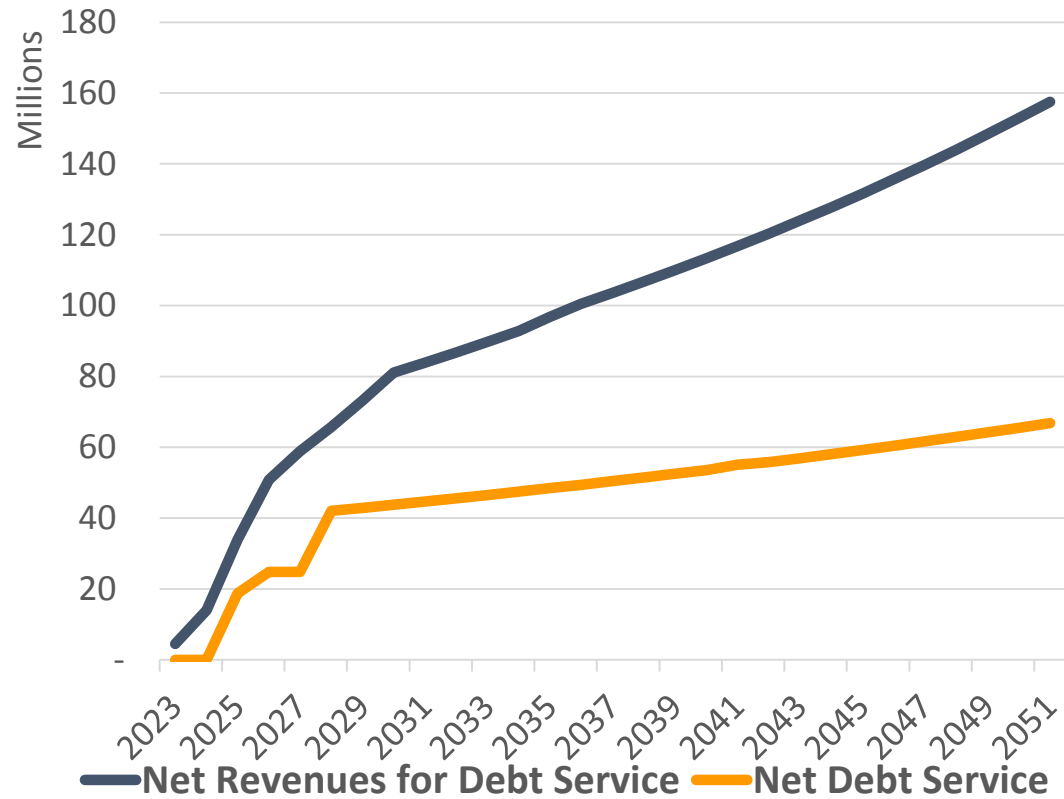
Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	4.5	-	-
2024	14.0	12.6	1.11x
2025	33.7	25.2	1.34x
2026	50.6	25.2	2.01x
2027	58.6	25.2	2.32x
2028	65.5	28.7	2.28x
2029	73.2	29.7	2.46x
2030	81.1	30.7	2.64x
2031	83.9	31.8	2.64x
2032	86.8	32.9	2.64x
2033	89.7	30.6	2.93x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Hybrid B1/C1 - Toll Revenue Bonds



Fiscal Year Ending	Net Revenues for Debt Service	Net Debt Service	DSCR
2023	4.5	-	-
2024	14.0	-	-
2025	33.7	18.8	1.79x
2026	50.6	24.8	2.04x
2027	58.6	24.8	2.36x
2028	65.5	42.1	1.56x
2029	73.2	42.9	1.71x
2030	81.1	43.8	1.85x
2031	83.9	44.7	1.88x
2032	86.8	45.6	1.90x
2033	89.7	46.5	1.93x

Net revenues for debt service and net debt service provided in \$ millions.

DSCR below TIFIA/Toll Revenue Bonds minimum DSCR highlighted in red

DSCR equal to TIFIA/Toll Revenue Bonds minimum DSCR highlighted in yellow

Initial Financing Observations - TIFIA

Investment Grade?	Option A	Option B	Option B1	Option C	Option C1	Hybrid Option B1/C1
Yes				Yes	Yes	Yes
Maybe		Maybe	Maybe			
No	No					

- Option A does not achieve OCTA financing objectives without a sizeable liquidity reserve
- Options B and B1 provide greater certainty than Option A
- Options C and the B1/C1 hybrid reasonably allow OCTA to achieve its financing objectives while preserving the 405 Express Lanes financial flexibility
- The initial analyses completed have not been stress tested by rating agencies, TIFIA or Toll Revenue Bond investors

Hybrid Option Results

Balanced approach:

- ✓ Fulfills Board of Director goal to offer HOV2 free for initial three years
- ✓ Offers customers a safe, reliable, predictable trip
- ✓ Supports throughput at free-flow speeds
- ✓ Designed to increase average vehicle occupancy
- ✓ Is balanced to serve toll paying customers and people who rideshare or use transit
- ✓ Should provide sufficient revenue to sustain 405 Express Lanes financial viability
- ✓ Should provide flexibility so that all covenants in financing documents can be met

Other - Peak and Non-Peak

- **Current Peak Definition:**
 - Weekdays: 6-10 AM and 3-8 PM
 - Weekends: 1 PM to 6 PM
- **Non-Peak Definition:**
 - Weekdays: Midday, 10 AM to 3 PM and evenings/overnight 8 PM to 6 AM
 - Weekends: Anytime except 1 PM to 6 PM
- **To adjust for growth in peak, adopt trigger point to redefine peak:**
 - Monitor non-peak hours for rolling 12-week period
 - If volumes exceed 3,128 vehicles per direction per hour, six or more times, flag and re-define that hour as “peak” and adopt peak toll policy for that hour

* 3,128 represents 92% of maximum optimal capacity of 3,400 vehicles per hour per direction

Project Funding Proposal

- Updated Project Cost Estimate is \$1.9 billion*
- Assumes full TIFIA support
- Toll road revenues provide the sole source of pledge for the TIFIA loan

Source of Funds	Amount
Measure M2 (Pay/Go, Bonds)	\$ 1,145,352,000
Federal Revenues	45,648,000
State Funds	82,000,000
TIFIA Loan (33% of Total Cost)	627,000,000
Total Sources	\$ 1,900,000,000

* Current estimate based on Federal Highway Administration Cost Estimate Review (April 28, 2016) plus contingency for unassigned risk. Project cost is not finalized until the design-build contract is awarded.

Recommendations

- Approve the initial 405 Express Lanes Toll Policy:
 - Use the B1/C1 hybrid option
 - Include trigger points to address growth in peak periods
- Adopt the preliminary Interstate 405 Improvement Project Finance Plan
- Allocate approximately \$10 million in internal funds to cover short-term, reimbursable project development costs
- Reimburse OCUTT for prior funding for project development*
- Authorize staff to process all necessary amendments to the Federal Transportation Improvement Program, and execute or amend all necessary agreements to facilitate the above actions

* OCUTT = Orange County Unified Transportation Trust Fund

Next Steps

We Are Here →

Description	Schedule
Federal Highway Cost Estimate Review	End of April 2016
Initial Toll Policy and Preliminary Finance Plan	May 2016
California Transportation Commission AB 194 Application Approval	May 2016
OCTA – Caltrans Operating Toll Agreement	June/July 2016
TIFIA: Indicative Credit Rating	June 2016
TIFIA: Application	August 2016
Design-Build Contractor Award	November 2016
Design-Build Contractor Notice to Proceed No. 1	January 2017
TIFIA: Loan Approval	March 2017
Design-Build Contractor Notice to Proceed No. 2	May 2017



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Supplemental Info - Proposed Options

405 Express Lanes Proposed Toll Policy Options

								Hybrid Option	
								First 3.5 Years	Balance of Finance Plan Term
Vehicle Occupancy	Peak & Non-Peak*	A HOV2+ Free All Day	B HOV2+ Free Non-Peak HOV3+ 50% Peak	B1 HOV2+ Free Non-Peak HOV3+ Free Peak	C HOV3+ 50% in Peak	C1 HOV3+ Free All Day	D **	B1 HOV2+ Free Non-Peak HOV3+ Free Peak	C1 HOV3+ Free All Day
HOV2	Peak	Free	Full Toll	Full Toll	Full Toll	Full Toll	Full Toll	Full Toll	Full Toll
	Non-Peak	Free	Free	Free	Full Toll	Full Toll	Full Toll	Free	Full Toll
HOV3+	Peak	Free	50% Toll	Free	50% Toll	Free	50% Toll	Free	Free
	Non-Peak	Free	Free	Free	Free	Free	Free	Free	Free

*Peak/Non-Peak:

Weekday Peak - 6 AM to 10 AM and 3 PM to 8 PM

Weekend Peak - 1 PM to 6 PM

Weekday Non-Peak – 10 AM to 3 PM and 8 PM overnight to 6 AM

Weekend Non-Peak – All times except for 1 PM to 6 PM

**Option D is for rating agencies – sensitivity using higher toll rates



ORANGE COUNTY TRANSPORTATION AUTHORITY

**Interstate 405 Improvement Project Initial Toll Policy and
Preliminary Finance Plan**

Supplemental Info - Letters

Building Industry Association of Southern California, Inc.
ORANGE COUNTY CHAPTER



May 11, 2016

Todd Spitzer, Chairman
OCTA Finance and Administration Committee
550 South Main Street
Orange, CA 92868

Dear Chairman Todd Spitzer:

The Building Industry Association of Southern California, Orange County Chapter (BIA/OC) is a non-profit trade association of over 1,100 companies employing over 100,000 people affiliated with the home building industry. The Orange County Chapter represents the largest member base within BIA Southern California. Our mission is to champion housing as the foundation of vibrant and sustainable communities.

It is well documented that the population in our County will increase. Over the next 25 years, the Southern California Association of Governments (SCAG) predicts a population increase of over 400,000 residents in Orange County. Accordingly, we applaud OCTA for the Agency's long term planning efforts to improve mobility through important projects such as the I-405 widening.

As our industry is well aware, proactive planning and foresight is necessary to achieve sound infrastructure solutions as our County continues to grow. We encourage the OCTA Finance and Administration Committee to take the next step in that process for the I-405 at your meeting today.

As always, we remain a resource on important issues that are related to the well-being of our local communities.

Thank you for your time and thoughtful consideration.

Respectfully,

Michael Balsamo
Chief Executive Officer

PRESIDENT
JIM YATES
RANCHO MISSION VIEJO

VICE PRESIDENT
PHIL BODEM
TAYLOR MORRISON

TREASURER
MIKE GARTLAN
KB HOME

SECRETARY
RICK WOOD
TRI POINTE HOMES

IMMEDIATE PAST PRESIDENT
JOAN MARCUS-COLVIN
THE NEW HOME COMPANY

TRADE CONTRACTOR V.P.
ALAN BOUDREAU
BOUDREAU PIPELINE CORPORATION

ASSOCIATE VICE PRESIDENT
MARK HIMMELSTEIN
NEWMAYER & DILLION, LLP

MEMBER-AT-LARGE
LAURA ARCHULETA
JAMBOREE HOUSING

MEMBER-AT-LARGE
SCOTT STARKEY
STARKEY COMMUNICATIONS

CHIEF EXECUTIVE OFFICER
MICHAEL BALSAMO

24 Executive Park, Suite 100
Irvine, California 92614
949.553.9500 | biaoc.com

May 13, 2016

Honorable Lori Donchak
Chairman of the Board
Orange County Transportation Authority
550 S. Main Street
Orange, CA 92868

RE: Interstate 405 Improvement Project Initial Toll Policy and Preliminary Finance Plan

Chair Donchak,

I am writing to express Orange County Business Council's (OCBC) strong support for the Interstate 405 Improvement Project Initial Toll Policy and Preliminary Finance Plan that has been recommended by the Finance and Administration Committee. The plan that has been recommended to your board is consistent the policy principles set forth by OCBC in the initial deliberations on Project K Preferred Alternative 3 with regards to occupancy options, maximum throughput, financial viability, and local control.

The plan that was approved by the committee on a 6-1 vote, ensures maximum throughput while maintaining the ability to ensure necessary levels of revenue to cover construction and operational costs. Known the Hybrid B1/C1 project, OCTA proposes that for the first 3.5 years, single drivers pay a toll at all times on the express lanes, two or more riders drive free during non-peak hours, and three or more riders drive free all day. OCBC views this as a balanced approach that will satisfy the requirements of stakeholders throughout the corridor.

Of paramount importance to OCBC is local control on I-405. OCBC asserts that OCTA is the agency best suited to implement the I-405 Improvement Project and the plan approved by the Finance and Administration Committee. **OCBC urges your board to approve the Hybrid B1/C1 plan to expedite construction.** Thank you for your thoughtful consideration.

Sincerely,



Bryan Starr
Senior Vice President

Cc. OCTA Board of Directors
Darrell Johnson, Chief Executive Officer, OCTA